

BEFORE THE
ILLINOIS COMMERCE COMMISSION

ILLINOIS COMMERCE COMMISSION) DOCKET NO.
On Its Own Motion) 00 -0340
-vs-)
ILLINOIS-AMERICAN WATER COMPANY)
)
Proposed general increase in)
water rates.)

Springfield, Illinois
October 26, 2000

Met, pursuant to notice, at 10:00 A.M.

BEFORE :

MR. MICHAEL WALLACE, Examiner

APPEARANCES :

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(Appearing on behalf of
Illinois-American Water Company)

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(Appearing on behalf of the Illinois
Industrial Water Consumers)

SULLIVAN REPORTING COMPANY, by
Cheryl A. Davis, Reporter, #084-001662

1	I N D E X				
2	WITNESSES	DIRECT	CROSS	REDIRECT	RECROSS
3	RONALD D. STAFFORD				
	By Mr. Kucera	25		78	
4	By Mr. Fitzhenry		29		
	By Mr. Balsters		41		
5	By Mr. Ader		45		
	By Mr. Clennon		71		
6	By Examiner Wallace		75		
7	MARK JOHNSON				
	By Mr. Kucera	83			
8	By Mr. Ader		84		
9	FREDERICK L. RUCKMAN				
	By Mr. Kucera	90			
10	MICHAEL A. RUMER				
11	By Mr. Kucera	93			
12	WILLIAM R. JOHNSON				
	By Mr. Clennon	96		140	
13	By Mr. Kucera		100		
	By Mr. Ader		103		
14	By Mr. Fitzhenry		117		143
	By Mr. Balster		136		144
15	EARL M. ROBINSON				
16	By Mr. Kucera	148			
17					
18					
19					
20					
21					
22					

1	I N D E X		
2	EXHIBITS	MARKED	ADMITTED
	Fosterburg 1	22	23
3	Jersey County Rural Water	22	23
4	Company 3.1, 3.2, 5.0, 9.0,		
5	11, 12	-	81
6	R.D. Stafford R-1 thru R-6	-	81
7	R.D. Stafford SR-1	-	81
8	Company 3.0	82	82
9	Company 2.0		90
10	Company 6, 6.1, 6.2, 6.3, 13	-	92
11	Company 4 & 10	-	95
12	Company 14 Revised	95	95
13	ICC Staff 9.0 Revised	96	146
14	Company 8.0 & 8.1		150
15			
16			
17			
18			
19			
20			
21			
22			

1 PROCEEDINGS

2 EXAMINER WALLACE: Pursuant to the direction
3 of the Illinois Commerce Commission, I now call
4 Docket 00-0340. This is the proposed general
5 increase in water rates of Illinois-American Water
6 Company.

7 May I have appearances for the record,
8 please.

9 MR. KUCERA: Daniel J. Kucera, Chapman and
10 Cutler, 111 West Monroe Street, Chicago, appearing
11 for the Respondent, Illinois-American Water
12 Company.

13 MR. ADER: David Ader, Ancel, Glink, Diamond,
14 Bush, DiCianni & Rolek, on behalf of the City of
15 O'Fallon, the City of Fairview Heights, and the
16 Village of Caseyville, Illinois.

17 MR. CLENNON: Joseph T. Clennon and Janis E.
18 Von Qualen, appearing on behalf of the Staff of the
19 Illinois Commerce Commission.

20 MR. FITZHENRY: Edward Fitzhenry with the law
21 firm of Lueders, Robertson and Konzen, Post Office
22 Box 735, Granite City, Illinois 62040, appearing on

1 behalf of the Illinois Industrial Water Consumers.

2 MR. BALSTERS: Kenneth E. Balsters of the firm
3 of Balsters and Hinrichs, P.C., P.O. Box 68,
4 Bethalto, Illinois 62010, appearing on behalf of
5 Jersey County Rural Water and Fosterburg Water
6 District.

7 EXAMINER WALLACE: Are there any other
8 appearances? Let the record reflect there are no
9 other appearances at today's hearing.

10 I noticed from the schedule that was sent
11 out that we have a few that are not going to be
12 crossed. Mr. Balsters mentioned that his two
13 witnesses there appear to be no cross, so we'll put
14 those in by affidavit. Do you have those?

15 MR. BALSTERS: I do.

16 EXAMINER WALLACE: Why don't we go ahead with
17 that.

18 MR. BALSTERS: There's multiple copies.

19 EXAMINER WALLACE: Did you file these
20 electronically?

21 MR. BALSTERS: I don't believe I did.

22 EXAMINER WALLACE: Okay. Then if you would

1 hand copies to the Court Reporter, and however you
2 want to mark them.

3 MR. BALSTERS: They're already marked as
4 Fosterburg Exhibit Number 1 and Jersey County Rural
5 Water Exhibit Number 1.

6 MR. ADER: Mr. Hearing Examiner, in terms of
7 names, can we relate the number to the name?

8 EXAMINER WALLACE: Yeah, just a second. Go
9 ahead and mark them.

10 (Whereupon Fosterburg Exhibit
11 1 and Jersey County Rural
12 Water Company, Inc. Exhibit 1
13 were marked for
14 identification.)

15 EXAMINER WALLACE: Okay. I have been handed
16 an affidavit of Mr. Gregory A. Bates on behalf of
17 Jersey County Rural Water Company, Inc. sponsoring
18 Jersey County Rural Water Company, Inc. Exhibit
19 Number 1. Is there any objection?

20 MR. KUCERA: No.

21 EXAMINER WALLACE: Jersey County Rural Water
22 Company, Inc. Exhibit Number 1 is admitted.

1 (Whereupon Jersey County Rural
2 Water Company, Inc. Exhibit 1
3 was received into evidence.)

4 EXAMINER WALLACE: I've also been handed an
5 affidavit of Paul W. Shetley on behalf Fosterburg
6 Water District sponsoring Fosterburg Exhibit 1. Is
7 there any objection to that?

8 MR. KUCERA: No.

9 EXAMINER WALLACE: Fosterburg Exhibit Number 1
10 is admitted into the record.

11 (Whereupon Fosterburg Exhibit
12 1 was received into evidence.)

13 EXAMINER WALLACE: Is there any other --

14 MR. CLENNON: Your Honor, I have one point.
15 One of the parties had some cross for Mr. King who
16 is scheduled to appear today. I have been informed
17 that there's no cross for Mr. King, and we would
18 propose to submit an affidavit either tomorrow or
19 later on today for Mr. King's testimony.

20 EXAMINER WALLACE: Okay.

21 MR. KUCERA: I would waive the need for an
22 affidavit. I would agree to the admission of

1 Mr. King's testimonies.

2 EXAMINER WALLACE: Does anyone else wish to
3 have the affidavit in?

4 MR. FITZHENRY: I have no objection to his
5 testimony going into the record.

6 EXAMINER WALLACE: Do you want to read the
7 exhibit numbers? He had --

8 MR. CLENNON: He had multiple.

9 EXAMINER WALLACE: All right.

10 MR. CLENNON: We could do it as a motion at
11 the end of the hearing as well.

12 EXAMINER WALLACE: Okay. And do we have some
13 other witnesses this morning?

14 MR. KUCERA: Yes. We actually do have one
15 more witness for the Company for which there's no
16 cross-examination, but he's present, and I could
17 sponsor his testimony briefly and excuse him.

18 EXAMINER WALLACE: Okay.

19 Would the witnesses who are scheduled to
20 testify please stand and raise your right hands.

21 (Whereupon five witnesses were
22 sworn by Examiner Wallace.)

1 EXAMINER WALLACE: Thank you. Be seated.

2 Mr. Kucera, you may start.

3 MR. KUCERA: Yes. Actually I'll begin with
4 one of the witnesses that there is
5 cross-examination for.

6 I'll call Mr. Stafford.

7 RONALD D. STAFFORD
8 called as a witness on behalf of Illinois-American
9 Water Company, having been first duly sworn, was
10 examined and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. KUCERA:

13 Q. Please state your name.

14 THE WITNESS:

15 A. Ronald D. Stafford.

16 Q. And, Mr. Stafford, are you appearing on
17 behalf of Illinois-American Water Company?

18 A. I am.

19 Q. And did you cause to be prepared in a
20 written question and answer format your direct
21 testimony?

22 A. Yes, I did.

1 Q. And is that direct testimony marked as
2 Exhibit 3?

3 A. Yes, it is.

4 Q. And does that exhibit refer to certain
5 other exhibits that you are sponsoring, more
6 specifically Exhibits 3.1, 3.2, and 9.0?

7 A. That's correct.

8 Q. And were those exhibits either prepared
9 by you or under your direction and supervision?

10 A. Yes, they were.

11 Q. Mr. Stafford, are you withdrawing from
12 your Exhibit 3.0 the material on pages 12 through
13 19 except for the last question and answer on page
14 19 and except for the carry-over answer at the top
15 of page 12?

16 A. That's correct.

17 Q. And that is pursuant to a notice that
18 was given on behalf of the Company to all parties
19 on August 18, 2000?

20 A. That's correct.

21 Q. Now one of the proposed witnesses for
22 the Company was an individual named Scott E.

1 Cazadd. Is that correct?

2 A. Yes.

3 Q. Has Mr. Cazadd now left the employ of
4 the company?

5 A. He has, yes.

6 Q. And are you adopting Mr. Cazadd's
7 testimony as if it were your own?

8 A. Yes, I am.

9 Q. And is that direct testimony contained
10 in the document marked as Exhibit 5?

11 A. That's correct.

12 Q. And does that direct testimony make
13 reference to two other exhibits, Numbers 11 and 12?

14 A. Yes.

15 Q. And were those exhibits prepared under
16 your direction and supervision?

17 A. Yes, they were.

18 Q. In addition, have you prepared your
19 rebuttal testimony in this proceeding?

20 A. Yes, I have.

21 Q. And is that contained in the document
22 marked Exhibit R-1?

1 A. That's correct.

2 Q. And does that rebuttal testimony make
3 reference to Exhibits R-2 through R-6?

4 A. Yes.

5 Q. And were those exhibits prepared ei ther
6 by you or under your supervision and direction?

7 A. Yes, they were.

8 Q. And have you presented surrebuttal
9 testimony in this proceeding?

10 A. Yes, I have.

11 Q. And is that contained in the document
12 marked Exhibit SR-1?

13 A. That's correct.

14 Q. Now referring you to your direct
15 testimony, the direct testimony of Mr. Cazadd that
16 you're adopting, and your rebuttal testimony and
17 your surrebuttal testimony, if I were to ask you
18 the same questions this morning that appear in all
19 of those testimonies, would your responses be the
20 same?

21 A. Yes.

22 MR. KUCERA: Mr. Examiner, subject to

1 cross-examination, I offer into evidence Exhibits
2 3, 3.1, 3.2, 9, 5.0, 11, 12, R-1 through R-6, and
3 SR-1, and the witness is now available for
4 cross-examination.

5 EXAMINER WALLACE: All right. Does anyone
6 have cross of Mr. Stafford? Mr. Fitzhenry.

7 MR. FITZHENRY: Yes. Thank you.

8 CROSS EXAMINATION

9 BY MR. FITZHENRY:

10 Q. Good morning, Mr. Stafford. I'm Ed
11 Fitzhenry on behalf of the IIWC.

12 A. Good morning.

13 Q. Would you please turn to page 8 of your
14 direct testimony?

15 A. Yes.

16 Q. Lines 3 through 6. There you suggest
17 that because the Streator and Pontiac Districts are
18 in proximity to the Peoria District, that is
19 reason, in part, to support single-tariff pricing
20 in those districts. Correct?

21 A. Reason in part, yes.

22 Q. Yes. Can you tell me what it is about

1 the proximity that suggests to you that single -
2 tariff pricing would be appropriate?

3 A. I don't believe there's -- as an
4 underlying reason proximity taken as of its own is
5 a reason to have them in single-tariff pricing.
6 The primary reason is that they have similar source
7 of supply, water systems, surface water supply
8 systems, and similar cost to the single-tariff
9 pricing grid, and that's the primary reason they're
10 included in single-tariff pricing.

11 Q. You're just pointing out the fact that
12 the districts are in proximity distance-wise to the
13 Peoria District?

14 A. Yes.

15 Q. Thank you.

16 Now I'd like you to turn to page 9 of
17 your direct testimony, and in your discussion of
18 the Alton District additional charge, or the Source
19 of Supply Charge as it's also referred to, at lines
20 22 through 23 you offer that this additional charge
21 would be reviewed in each future rate case, do you
22 not?

1 A. That's correct.

2 Q. Can you tell us when that might next be?
3 When would be the next rate case anticipated by the
4 Company?

5 A. That's yet to be determined. The
6 approximate time frame that I'm considering is
7 approximately three years.

8 Q. And assuming the Commission were to
9 accept the Company's proposed Source of Supply
10 Charge, you would, again, ask that that be reviewed
11 in that case?

12 A. Correct.

13 Q. Thank you.

14 Now, generally speaking, in your
15 testimonies you addressed the concerns the Company
16 has with competitive options for large users of
17 water service. Correct?

18 A. Correct.

19 Q. And I think you refer to the ability of
20 those customers to procure their water supplies
21 from other sources, such as the City of St. Louis?

22 A. That's correct.

1 Q. Okay. Now is it also true that under
2 certain circumstances these customers can procure
3 their water supplies from either nearby rivers or
4 wells that may be on their properties?

5 A. That is correct.

6 Q. Do you know whether today, in fact, any
7 of the Company's customers or large users actually
8 do take water from nearby rivers or through wells
9 on their properties?

10 A. Yes, I believe there are some that do.

11 Q. And would these customers also likely be
12 standby customers of the company?

13 A. I believe those customers could be
14 standby, but my understanding is their primary
15 service of potable water is from the Company
16 currently.

17 Q. Northwestern Steel and Wire is a standby
18 customer, correct?

19 A. Yes. That would be an exception
20 certainly.

21 Q. And what about Caterpillar?

22 A. Yes, Caterpillar in Pontiac is a

1 standby.

2 Q. And is it generally true that both of
3 those companies take the majority of their water,
4 if you know, from either the river or through wells
5 on their properties?

6 A. I believe you're correct in that
7 statement.

8 Q. Okay. Would it also be true that, if
9 you know, some of these large water users have the
10 ability to shift production on their plant
11 facilities?

12 A. I believe that to be correct, yes.

13 Q. Okay. And, again, hypothetically, if
14 one of these large customers were to shift
15 production, does it stand to reason that that would
16 result in the customer using less water?

17 A. Less water from the Company, yes.

18 Q. Thank you.

19 Now I'm also correct in understanding
20 that in the past the Company has proposed tariff
21 filings in which to mitigate the effect of losing
22 these customers. Correct?

1 A. Correct.

2 Q. And that would include what's been
3 described in the testimonies as a competitive rate?

4 A. Yes.

5 Q. Okay. Can you tell me generally what
6 are the parameters or what are the requirements
7 that a customer must meet in order to take service
8 under the competitive rate?

9 A. The way the competitive rates have been
10 established has been based upon the customer having
11 a viable competitive alternative of which that
12 customer could secure an alternative source of
13 supply at a less expensive rate than what our
14 general tariff would be. We have established a
15 competitive rate to meet that alternative.

16 Q. Okay. Today are there customers on the
17 IAWC system taking service under the competitive
18 rate?

19 A. Yes.

20 Q. Do you know how many customers?

21 A. Four current customers.

22 Q. And do you know which division or

1 district they are located?

2 A. Yes. They're all located within the
3 Interurban District.

4 Q. And that would be part of the Southern
5 Division?

6 A. Yes.

7 Q. Do you know offhand what is the total
8 water usage that these four customers who take the
9 competitive rate option use?

10 A. They use approximately 2,600 million
11 gallons of water annually.

12 Q. Okay. Thank you.

13 Now there's also been testimony by you
14 and others in this case as to what's referred to as
15 a large user water service rate. Do I have that
16 correct?

17 A. Yes.

18 Q. Sometimes I intermix the words in that
19 description, but you know what I'm talking about.

20 A. Correct.

21 Q. Okay, and, again, as I asked you about
22 the competitive rate, can you tell me what are the

1 general requirements that need to be met by a
2 customer that wants to take service under that
3 particular rate?

4 A. There's a usage requirement. The
5 customer must use in the range of a half million
6 gallons per day of water on an annual basis to
7 qualify for the tariff from a usage requirement,
8 and that's the only restriction for a qualification
9 for that tariff.

10 Q. Okay. Are the customers required to
11 enter into a fixed contract term with the Company?

12 A. Yes, they are.

13 Q. And is the price during that fixed
14 contract term fixed as well?

15 A. The price for an individual year during
16 that fixed five-year contract term is fixed and
17 then adjusted, true-up on an annual basis and
18 reestablished for the following year during the
19 five-year term.

20 Q. Okay. Thank you.

21 And again, as I asked you about the
22 competitive rate option, are there customers

1 currently taking service under this particular
2 rate?

3 A. No, there's not, no current customers
4 under this tariff. There's one that we're
5 currently in negotiations with for the tariff.

6 Q. Okay. Thank you.

7 Now I think if I asked you this question
8 previously, I don't mean to be repetitive, but the
9 Company does offer standby rates, correct?

10 A. That's correct.

11 Q. And was it the Company's intention in
12 offering standby rates in the past in order to,
13 again, try to meet the competitive options that
14 those customers may have?

15 A. That's certainly one consideration, yes.

16 Q. And again, I'm talking about the
17 competitive issues and competitive options that you
18 talk about in your testimonies. Is it fair to say
19 that at least today that most of that seems to be
20 taking place in the Metro East area, the St. Louis,
21 Missouri area?

22 A. Yes.

1 Q. Again, that would be in the Interurban
2 District which is part of the Southern Division?

3 A. Correct.

4 Q. And just so I'm sure about this, is my
5 understanding correct that the Company's
6 across-the-board increase in the Southern Division
7 is being requested, in part, to deal with these
8 competitive pressures that we have been talking
9 about?

10 A. Yes.

11 Q. Now in your surrebuttal testimony,
12 Mr. Stafford, you make reference to IIWC witness
13 Michael Gorman's testimony, and you state that he
14 agrees with the Company's across-the-board increase
15 proposal. Is that your recollection?

16 A. Yes. You're correct.

17 Q. Isn't it more correct to say, if you
18 know, that Mr. Gorman's position is that he
19 supports the across-the-board increase in the
20 Southern Division, Peoria District, but supports
21 the Staff's cost-of-service approach in the other
22 districts?

1 A. Yes, I believe that's correct.

2 Q. Okay. Now I'd like you to turn to your
3 rebuttal testimony, particularly your Exhibit R-5 I
4 think. Do you have that before you?

5 A. Yes, I do.

6 Q. Okay. And there's a column that's
7 titled Percent Increase, and it provides for the
8 different blocks, 1 through 4, in which customers
9 can take service. Correct?

10 A. That's correct.

11 Q. Okay. Now when we talk about large
12 users or industrial customers taking service, they
13 take service in blocks 1 through 4. Correct?

14 A. Yes.

15 Q. In I think even the Company's schedules,
16 I can't remember just where, you'll have three
17 different categories of customers - residential,
18 commercial, and industrial, but you also have
19 public authority and so forth. Do you know what
20 I'm talking about?

21 A. Yes.

22 Q. When we talk about or when the Company

1 has a schedule that says industrial and provides
2 for the amount of revenues and so forth that are
3 being derived from that class, are you talking
4 about customers primarily taking water service in
5 the third and fourth block or just the fourth
6 block?

7 A. The industrial classification deals with
8 the type of customer, whether they're in business
9 to produce industrial products primarily. They
10 generally take the majority of their water in the
11 fourth block. The majority of them do. Some of
12 the industrial customers could take the majority of
13 their water use in the third block. They generally
14 -- almost all the industrial customers take the
15 majority of their water in the third and fourth
16 block.

17 MR. FITZHENRY: Thank you, sir. That's all
18 the questions I have.

19 EXAMINER WALLACE: Any other questions?

20 MR. BALSTERS: I have a few questions.

21 EXAMINER WALLACE: All right.

22

1 CROSS EXAMINATION

2 BY MR. BALSTERS:

3 Q. Mr. Stafford, on behalf of Fosterburg
4 Water District and Jersey County Rural Water, I
5 have just a few questions.

6 If I could direct your attention to page
7 7 of your direct testimony, you make reference to
8 the last three cases in Dockets 92-0116 and 95-0076
9 and Docket 97-0102, and you make reference that
10 there was movement towards single-tariff pricing
11 for the Southern Division. Is that correct?

12 A. The movement towards single-tariff
13 pricing I'm referring to there is movement for
14 Peoria District toward the Southern Division
15 single-tariff pricing. Southern Division
16 single-tariff pricing was established in Docket
17 No. 92-0116.

18 Q. The movement towards single-tariff
19 pricing, or STP, was that a Company proposal?

20 A. Yes.

21 Q. And the Company continued to support STP
22 subsequently in the 95 docket and the 97 docket?

1 A. Yes, and the Company continues to
2 support STP in the current docket.

3 Q. In your testimony at page 7 at lines 25
4 and 26 you state: "Single-tariff pricing provides
5 several benefits to customers. In particular,
6 single-tariff pricing provides more rate stability
7 over time to customers in a particular district
8 because it serves to moderate the rate impacts on
9 customers in any one district due to factors such
10 as a large construction program or the loss of a
11 large customer." Do you still believe that STP is
12 in place to provide such a benefit?

13 A. Yes.

14 Q. Since you responded to a data request
15 from Fosterburg Water and Jersey County, you are
16 aware that the percentage increase to be
17 experienced by those two resale customers would be
18 approximately 34.8 percent under the Company's
19 proposed rate case?

20 A. Correct.

21 Q. For a recent test period. In your
22 opinion, is this the type of rate stability that

1 the Company was contemplating under the STP
2 program?

3 A. I believe when we established STP and
4 referenced rate stability, that we're referring to
5 more of a uniform increase to all customers. I
6 would not characterize the increase that you just
7 referenced as being consistent directly with the
8 term rate stability.

9 Q. In fact, do you believe that that type
10 of a rate increase can easily be dealt with by a
11 sale-for-resale customer?

12 A. I don't believe that increase can be
13 easily dealt with by any customer. I do believe
14 sale-for-resale customers have the ability to pass
15 on that type of an increase to its customers, but I
16 wouldn't say it's easy for a customer to deal with,
17 no.

18 EXAMINER WALLACE: Are you saying sale for
19 resale?

20 A. Sale for resale.

21 EXAMINER WALLACE: All right.

22 Q. In both your rebuttal and surrebuttal

1 testimony you make reference to the possibility of
2 other large wholesale customers, or sale-for-resale
3 customers, like O'Fallon and Caseyville,
4 potentially seeking other sources of supply for
5 part or all of their needs, thereby forcing the
6 Company to try to moderate the potential rate
7 increase impact on those customers. Is that
8 correct?

9 A. Correct.

10 Q. Do you know whether or not the Company
11 has all-requirements contracts with O'Fallon and
12 Caseyville, requiring them to purchase water from
13 Illinois-American for a certain period of time?

14 A. There are no current active all-
15 requirements contracts with either of those
16 customers.

17 Q. Are you aware of whether or not there
18 are all-requirements contracts with Fosterburg and
19 Jersey County?

20 A. Yes, there are.

21 Q. Even though Fosterburg and Jersey County
22 may have all-requirements contracts with you, do

1 you believe that it's still important to recognize
2 the potential impact of a large 34.8 percent
3 increase on that customer?

4 A. I believe it's important to recognize
5 that potential increase on any customer and, you
6 know, whether the basis for that increase is valid
7 certainly.

8 MR. BALSTERS: No further questions.

9 EXAMINER WALLACE: Any further cross?

10 MR. ADER: Yes, Your Honor.

11 I'm David Ader. I represent the City of
12 O'Fallon, Village of Caseyville, City of Fairview
13 Heights.

14 CROSS EXAMINATION

15 BY MR. ADER:

16 Q. Throughout your testimony, both in your
17 direct testimony and in your rebuttal, and it has
18 been also I think followed up in some of the
19 questions already today, your Company seems to be
20 quite concerned about what one might call customer
21 flight. Is that correct? That if the rates
22 continue to go up, it makes other sources perhaps

1 more viable and more attractive?

2 A. Yes. There has been concern expressed
3 to that regard.

4 Q. And if, in fact, particularly -- well,
5 strike that.

6 The larger the customer, the more likely
7 it is that they will have an opportunity to have an
8 alternate source or to be able in some way to
9 bypass the Company. Is that correct?

10 A. I'm not sure if size is always a
11 criteria. I think customers of potentially any
12 size could have that ability.

13 Q. Well, but I believe that your president
14 in his testimony among the risks mentioned that the
15 larger users pose a greater threat or a threat to
16 going elsewhere. Is that correct?

17 A. As we see it currently, yes, that's
18 definitely correct.

19 Q. And particularly the larger users, of
20 course any user, but particularly the larger users,
21 the loss of such a user would throw a lot more of
22 the base costs on those that -- the base cost that

1 it would absorb would be thrown on the remaining
2 customers. Is that correct?

3 A. That's correct.

4 Q. And I think your testimony in Exhibit 3
5 at page 7, that you believe that those base costs
6 amounted to about 65 to 70 percent of the amount
7 that's charged to customers. Is that correct?

8 Across all districts I think you said.

9 A. The 65 to 70 percent I would
10 characterize more as common costs as opposed to
11 base costs.

12 Q. Well, base cost I thought was a cost
13 that basically was created by serving everyone;
14 that it was a shared cost as opposed to what might
15 be variable by the particular use. Is that
16 correct?

17 A. No. Base cost in the cost-of-service
18 study is primarily the amount of cost needed to
19 provide average day load, volumetric load of water
20 to all customers, while common costs are costs that
21 are spread throughout the entire operation, such as
22 state and corporate office costs. They are spread

1 to everyone, and they're spread -- they're not
2 necessarily spread entirely to volumetric usage.
3 They could be spread to customer service charges,
4 costs that are separate from base costs. Base
5 costs are designed only to meet average day load
6 for its customers.

7 Q. All right. So you're saying a base cost
8 is related directly to water, whereas what you're
9 talking about as the spread of cost is a fixed
10 cost. It's not necessarily directly connected to
11 the water, although it is connected to your
12 Company's functioning.

13 A. Correct.

14 Q. But both types of costs, the fixed cost
15 and the base cost that everyone shares, would
16 become more of a burden on other users as some
17 users leave the system. Is that correct?

18 A. That's correct.

19 Q. I believe that it was your testimony
20 that you have analyzed where the customers are
21 essentially up to this point. I think you were
22 talking historically; that in the past or where we

1 are now before the rates you're now advocating are
2 adopted, that the first block -- you have a block
3 system. The more you use, the higher the block you
4 enter. Is that correct?

5 A. Correct.

6 Q. Now it was your testimony I believe that
7 the first block, which is one that everyone would
8 share, the individual homeowner and any user on its
9 way up to whatever its top block would be, had only
10 increased 54.79 percent. Is that correct? That I
11 believe is at page 9 of your rebuttal.

12 A. Well, that could be also on page 9 of
13 the rebuttal. I'm looking specifically at Exhibit
14 R-5, and I'm showing that the first block has
15 increased 54.79 percent from Docket No. 85-0202 to
16 the current docket.

17 Q. Right. You may be more correct. No,
18 it's on the bottom of page 9 as well of the
19 testimony, but that's fine.

20 And then continuing on in that theme, the
21 second block in the same way was increased only
22 44.10 percent. Is that correct?

1 A. Correct.

2 Q. The third block, however, was raised
3 73.39 percent. Is that correct?

4 A. That's correct.

5 Q. And the fourth block was raised 104.01
6 percent. Is that correct?

7 A. Yes, that's correct.

8 Q. Now it's your understanding that the
9 reason that the Company is proposing an
10 across-the-board increase rather than taking the
11 approach of the Commission's Staff is that the
12 increases to each category or classification of
13 user would be less dramatic than under the Staff's
14 proposal. Is that correct?

15 A. No, I wouldn't say that's correct. The
16 impact on larger users would be less under the
17 Company's proposal using across-the-board increase.
18 The overall increase would still be there. It
19 would just be spread differently, and the large
20 users would see less of an increase under our
21 proposal than they would under Staff's proposal.

22 Q. And you did that because you wanted to

1 guard against those that are most likely to flee
2 the system. Is that correct?

3 A. That's one of many considerations
4 outlined in our testimony. Certainly that's one.

5 Q. So your concern, and I believe it shows
6 at page 10 of your rebuttal, perhaps elsewhere,
7 your concern is that the Illinois Commerce
8 Commission Staff isn't being sensitive enough to
9 the possibility of this customer class -- flight
10 from this customer class and that they may be
11 risking customer defections. Is that correct?

12 A. That's correct.

13 Q. Because the Illinois Commerce Commission
14 Staff, as you understand it, wants the large water
15 service class to have a greater increase. Is that
16 correct?

17 MR. CLENNON: Objection. That's a
18 mischaracterization of Staff's position.

19 MR. ADER: I'll withdraw the question. The
20 evidence adduced so far will speak for itself.

21 Q. Now I think you also testified at page 9
22 of your rebuttal going back to the effect on

1 blocks, and I would like clarification. I wasn't
2 sure whether this was historical or under the
3 present proposal of the Commission Staff, but there
4 was a statement that in the third block rate that
5 there would be an increase or was an increase to
6 15.6 percent whereas the actual increase overall
7 was only 6.2 percent. Is that correct?

8 A. I recall that statement, yes.

9 Q. And is that applicable to Staff's
10 position and what they're advocating now or is that
11 another statement of historical fact up to today's
12 date?

13 A. That statement was based on Staff's
14 original prefiled direct testimony. Their current
15 position has changed to where the increase to the
16 third block has been moderated and is more in line
17 with the increase currently to the fourth block.

18 Q. What is the present increase, if you
19 know?

20 A. I don't recall the exact percent. I
21 know it's over 10 percent.

22 Q. Okay. And all of the percents together

1 are what are necessary. In other words, from every
2 class and from every block is what's necessary to
3 cover what the Company sees and also Staff sees as
4 the need for the Company to receive to recoup its
5 costs and to have a fair return. Is that correct?

6 A. That's essentially correct, yes.

7 Q. So that if the third block was reduced
8 by approximately 5.6 percent, that amount had to be
9 absorbed elsewhere. Was that amount increased to
10 -- if you know, to the fourth block or where did
11 that amount go?

12 A. It appears from reviewing Staff's filing
13 that that increase was absorbed primarily in both
14 the second and the fourth blocks.

15 Q. Was it fairly equally divided, if you
16 know, or was there more of a bias toward the fourth
17 block?

18 A. In terms of percent, I think there was
19 more of a movement to the second block than the
20 fourth block.

21 Q. Do you know by how much? I mean do you
22 know how evenly it was divided? Do you remember?

1 A. My recollection is that the increase to
2 the second block was about a little over 3 percent
3 and the increase to the fourth block was I believe
4 about 1-1/2 percent.

5 Q. Do you think this is enough of a
6 recognition on the part of Staff of the Staff
7 problem that -- of the flight problem that you now
8 are pretty much in line with what Staff is
9 proposing or do you think that that doesn't go far
10 enough?

11 A. Well, we maintain our position, as
12 outlined in surrebuttal testimony, that it's more
13 appropriate to recognize the Company's position, so
14 in answer to your question, no, we don't believe
15 that has gone far enough.

16 Q. Now how is the -- other than an
17 across-the-board increase as opposed to a more
18 divided approach such as the Staff, what else is
19 the Company doing, if anything, to try to answer
20 the competition problem?

21 A. Well, as has been discussed today, the
22 Company has customers already on the competitive

1 service tariff. We also have a large user tariff
2 available for customers, and we certainly want to
3 do what we can to benefit our entire customer base
4 by retaining large customers within reason. We
5 certainly want to sit down with customers, talk
6 with them, see if we can address the needs that
7 they have.

8 Q. Now you in your rebuttal testimony at
9 around page 10 specify O'Fallon certainly as one of
10 the companies. I think you call it they're the
11 largest wholesale customer of the Company. Is that
12 correct?

13 A. Page 10 of rebuttal?

14 Q. Yes.

15 A. Could you give me a line for that?

16 Q. Well, it's around line 2, and you call
17 it 6. I think it's line 6. "It is common knowledge
18 that O'Fallon, the Company's largest wholesale
19 customer, is considering construction of a pipeline
20 to St. Louis for the purchase of its water
21 requirements."

22 A. Page 10 of the rebuttal?

1 MR. KUCERA: It says page 9.

2 MR. ADER: I have it on 10.

3 MR. KUCERA: You have a different version than
4 I do.

5 A. Okay. On the copy I'm looking at I'm
6 seeing page 9 of rebuttal, line 15. "It is common
7 knowledge that O'Fallon..." on the version that I
8 have.

9 Q. And you're also in that same section
10 concerned about Caseyville and other large
11 wholesale customers. Is that correct?

12 A. Correct.

13 Q. What, if anything, has the Company done
14 to try to -- well, strike that.

15 Has the Company ever acted to treat
16 O'Fallon or Caseyville as one of its competitive
17 customers?

18 A. I wouldn't say there has been a specific
19 course of action to do that. We have certainly
20 talked with specifically O'Fallon about their
21 potential competitive alternatives, and there has
22 been discussion in that regard.

1 Q. Why is it that O'Fallon and Caseyville
2 have not been offered the same type of competitive
3 arrangement that you seem to have with -- or you
4 have open -- I guess you testified you don't have
5 any competitive customers right now. Is that your
6 testimony or not?

7 A. No, we do have competitive service
8 tariff customers currently.

9 Q. How many of those are there? Do you
10 know?

11 A. Four.

12 Q. I see. Why is it that neither
13 Caseyville nor O'Fallon have been treated in that
14 way to date?

15 A. Neither Caseyville nor O'Fallon to my
16 knowledge have demonstrated that they have yet a
17 competitive alternative that would produce less
18 expensive water than what they're currently
19 receiving from Illinois-American, and that
20 distinguishes them to date from the agreements that
21 we've entered into with other customers.

22 Q. Well, what did the others bring you that

1 O'Fallon hasn't brought you? I mean O'Fallon you
2 say is in the process of a study. What did the
3 others have that won them that competitive rate?

4 A. They presented evidence that indicated
5 that they had a viable competitive alternative that
6 would produce less expensive water than what they
7 were getting from Illinois-American. They provided
8 evidence to us that would indicate they were
9 prepared to leave our system, and we saw that as a
10 direct detriment to our entire customer base, and
11 based upon that evidence, we presented to the
12 Commission competitive service tariffs that were
13 designed to meet the competitive alternative.

14 Q. Well, can you be more specific as to
15 what you mean by "evidence"?

16 A. Those customers provided information
17 regarding the ability to get -- run a pipeline
18 under the Mississippi River to obtain City of St.
19 Louis potable water under an all-requirements
20 arrangement. They weren't obligated to take all
21 their water from that source, but they demonstrated
22 that the cost of the pipeline, the fixed cost

1 associated with that, along with the variable cost
2 of water from the City of St. Louis was less
3 expensive than what they were currently receiving
4 from Illinois-American.

5 Q. Are your four existing competitive
6 customers clustered in a particular place? Are
7 they grouped together or are they in different
8 areas?

9 A. Three are grouped together essentially,
10 and they're along the Mississippi River. The other
11 two are also in close proximity. Yeah, I say the
12 other two. Two former sale-for-resale customers
13 formed and became one customer, so they are
14 essentially the fourth customer. They are also in
15 close proximity to the Mississippi River, so all
16 four customers have that similar characteristic
17 where they're all close to the river and
18 potentially could have constructed a pipeline under
19 the Mississippi River to get City of St. Louis
20 water.

21 Q. By close to the river, one mile? Two
22 miles? Three miles?

1 A. I would say one mile or less.

2 Q. In each of the cases.

3 A. Yes.

4 Q. Now in the schedules that you have for
5 -- the schedules even the Commission has, but let
6 me ask you about your schedules first. I see that
7 users are divided into residential, commercial,
8 industrial. I don't see any category that's called
9 wholesale. Is there not going to be a rate
10 increase in that category or has that not ever been
11 specifically treated under your rates as a separate
12 category?

13 THE WITNESS: Could I have the question read
14 back, please?

15 (Whereupon the requested
16 portion of the record was read
17 back by the Court Reporter.)

18 A. As a matter of clarification, could you
19 give me a reference to the schedules that you're
20 discussing?

21 Q. Well, I was just generally, when you
22 talk about the rates, you have across the top or

1 along the side in a number of them the various
2 uses, and you have one of them I think that's the
3 high, the high usage category, but I don't see one
4 that actually says wholesale. I don't even know if
5 you use that term anywhere other than in your
6 actual spoken testimony.

7 A. In the prefiled schedules labeled in our
8 filing as Exhibit 14, Schedule E-4, we show a
9 classification of customers labeled as Other Water
10 Utilities.

11 Q. Uh-huh.

12 A. They're essentially -- that term is
13 synonymous with sale for resale. So as a customer
14 class, we recognize sale-for-resale users as a
15 separate classification. As far as our rate
16 schedules go, we have a general set of tariffs that
17 apply to all customers and is designed on volume
18 rather than segregation by customer class.

19 Q. So, in other words, there really isn't a
20 distinction between what you would call retail and
21 what you would call wholesale. You just have these
22 various things, residential, commercial,

1 industrial, and then there would be other water
2 utilities, but they're all considered in that sense
3 retail. It's all one type of -- one schedule for
4 retail use.

5 A. They're all under the same schedule for
6 rates.

7 Q. Right. So that would be why perhaps
8 your president referred to I think it's on page 1
9 or 2, I can look it up, but one of the pages of his
10 testimony referred to O'Fallon and Caseyville as
11 being retail customers, and you have referred to
12 O'Fallon and Caseyville in your testimony as being
13 among or O'Fallon being your largest wholesale
14 customer.

15 EXAMINER WALLACE: Your answer?

16 A. It's strictly terminology. They're
17 buying water from us wholesale, but then they're
18 reselling that water at a retail level, so it's
19 strictly terminology there. We're talking about
20 the same customers when we're referring to O'Fallon
21 and Caseyville.

22 Q. So your president's approach then from a

1 purely rate standpoint would be more correct that
2 they're a retail customer, but they're a retail
3 customer shown under a utility or for resale.

4 MR. KUCERA: Do you understand the question?

5 A. I'm not sure what you mean by the term
6 retail customer and how you're trying to use that.

7 Q. Well, your president in his testimony
8 talks about O'Fallon, and when he's talking about
9 the various districts and who the customers are on
10 page -- under Interurban on page I think it's 9.
11 Let's see. On page 9, I think it's the first
12 paragraph, he refers to "In addition, water is sold
13 at retail to Scott Air Force Base, the City of
14 O'Fallon, Village of Caseyville...", etc., and what
15 I'm saying is that reflects the fact that the
16 Company really doesn't make in terms of its rate a
17 specific distinction between a wholesale customer
18 and a retail customer, but it does make a
19 distinction in terms of how it classifies the user,
20 and you would put it under -- you would put
21 O'Fallon or consider O'Fallon under -- and perhaps
22 Caseyville as well under other utility because it

1 resells.

2 A. That's essentially correct, yes.

3 Q. Although O'Fallon is not near the river
4 and would have to structure -- lay a pipe to use
5 the water from St. Louis, wouldn't this present as
6 much or a greater risk than those lying against --
7 along the Mississippi River because if, in fact,
8 they underwent the expense to lay the pipe, that
9 they might then become an active competitor of your
10 Company to help spread their own cost?

11 A. That is a concern that's already been
12 expressed in testimony, yes.

13 Q. So why would the Company in terms of
14 trying to alleviate the risk of this type of
15 flight, and particularly from O'Fallon, not take
16 action now to treat them as one of your competitive
17 customers because perhaps once they've made their
18 arrangements, things may have moved beyond the
19 point of no return? Wouldn't it behoove the
20 Company to view this potential and act now to treat
21 them as a competitive customer?

22 MR. KUCERA: I object to the question. He has

1 already testified that the Company has had
2 discussions with O'Fallon about that, and obviously
3 O'Fallon has not yet qualified for the competitive
4 service.

5 MR. ADER: Well, that's what I'm going to.

6 Q. Why would you not consider them under
7 these circumstances already qualifying? I believe
8 that you in your testimony in relation to the
9 Commerce Commission talked about the situation
10 being -- I believe it's at page 3 of your
11 surrebuttal, whatever, but I think you'll recognize
12 it's your terminology, you talked about the special
13 circumstances of this case, that O'Fallon in a
14 sense presents a special circumstance, so why has
15 not the Company regarding that special circumstance
16 put them in the classification under present
17 circumstances of the competitive customer?

18 EXAMINER WALLACE: Just a second. There's an
19 objection pending. Are you withdrawing your
20 objection?

21 MR. KUCERA: No, no, I'm not. I think that
22 we're now getting into a very specific area that's

1 outside the scope of the rate case itself. I think
2 if O'Fallon feels that it qualifies for the
3 competitive services tariff, then it should discuss
4 that directly with the Company and provide the
5 evidence that Mr. Stafford has been talking about
6 of specific opportunity to engage in an alternative
7 approach to a water supply. We're not going to
8 resolve that in this proceeding. That's an issue
9 that is a matter of discussion I think between
10 O'Fallon and the Company directly.

11 EXAMINER WALLACE: A response?

12 MR. ADER: I believe that I have a right to
13 ask that question because we know, as part of its
14 rate case already, that there are special
15 circumstance or competitive, let's put it that way,
16 customers whose additional costs are being proposed
17 both by the Company and by the Commission to be put
18 on the other existing customers that include at the
19 moment O'Fallon and Caseyville. The correctness,
20 the fairness, the nondiscrimination of the proposed
21 rate increase is one of the factors before this
22 Commission, and I think I have the right to examine

1 what this difference is in terms of the present
2 rate structure and its fairness in the way that
3 it's structured. It's also my last question. I
4 would very much like to have an answer so that we
5 have some reasoning on the record as to this
6 distinction. I'm not asking for him to negotiate
7 terms now with O'Fallon. In fact, I'm not sure
8 there are terms to be negotiated. It appears that
9 there is this competitive group which is entitled
10 to certain benefits with or without a contract

11 EXAMINER WALLACE: I'm not exactly sure now
12 what you're looking for. So with that in mind, the
13 original objection is sustained.

14 MR. ADER: Well, can I try one more time?

15 EXAMINER WALLACE: Yes.

16 MR. ADER: Thank you.

17 Q. The question is, that since it's flight
18 or the potential of flight that creates this
19 competitive group of which you now have four
20 members that get a special rate because of the
21 competitive rate -- maybe I should ask this first.
22 Is the rate uniform? If you have a competitive --

1 one that you're treating as a competitive user, is
2 that rate a rate the same among all of those
3 competitive users?

4 A. No. There are two separate competitive
5 service rates. One rate applies to three
6 industrial, former industrial customers that are
7 still our customers under the competitive rate.
8 That rate is different than the rate that applies
9 to two former sale-for-resale customers that are
10 now one customer, and the reason the rate is
11 different, as I think I expressed earlier, the
12 competitive alternative, although similar, was
13 different. The cost of meeting that competitive
14 alternative was different, so the rate was designed
15 to meet the cost of the competitive alternative.

16 Q. And these competitive customers, were
17 they approached on an individual negotiation basis
18 or is there a rate that the Company sets in the
19 hopes of demonstrating stay home because we can
20 equal or better what you're being offered
21 elsewhere?

22 A. The rate was determined through

1 negotiations, through the process of negotiations.

2 Q. I see. So then perhaps it's possible
3 that if O'Fallon were to come to the Company, that
4 it would be treated as and extended some
5 competitive rate then, and you're saying that it
6 would happen through negotiation and not through
7 the establishment of a recognized category with a
8 rate.

9 A. There is not what I label a recognized
10 category for the rate. As I mentioned previously,
11 the basis for determining the tariff was
12 demonstration by the customers that they had a
13 viable competitive alternative. The Company set
14 out to meet that competitive alternative because it
15 deemed that it was in the best interest of its
16 entire customer base to retain that customer or
17 those customers.

18 The Company would be more than willing to
19 sit down and review information that O'Fallon has
20 that would indicate that they have a viable
21 competitive alternative.

22 Q. Okay. Perhaps then my last question

1 would be, among the four that are established, who
2 approached whom to begin the consideration of them
3 specifically as one of these competitive customers?

4 A. Regarding the three industrial
5 customers, former industrial customers, that are on
6 the competitive service tariff, they approached the
7 Company and indicated to the Company that they had
8 a viable competitive alternative, provided evidence
9 of that alternative.

10 Regarding the two former sale-for-resale
11 customers, it became common knowledge to the
12 Company in its last rate case and actually became
13 an item within the rate case itself that those
14 customers were threatening to leave the system
15 because it became common knowledge to the Company
16 and the evidence was there to indicate that there
17 was clearly a competitive alternative that was
18 detrimental to the Company. The Company initiated
19 discussions with those two customers.

20 MR. ADER: Thank you.

21 EXAMINER WALLACE: Mr. Stafford, what is your
22 own personal knowledge --

1 MR. CLENNON: Your Honor, Staff has some cross
2 for this witness. We do not have it marked down,
3 but in light of the testimony he has just given,
4 I'd like to ask him a couple of questions, if I
5 may.

6 EXAMINER WALLACE: Well, we generally don't
7 allow cross on cross, so if your cross is generated
8 from --

9 MR. CLENNON: It's generating from his Exhibit
10 R-5.

11 EXAMINER WALLACE: All right. Go ahead.

12 MR. CLENNON: Thank you.

13 CROSS EXAMINATION

14 BY MR. CLENNON:

15 Q. Good morning, Mr. Stafford. My name is
16 Joseph Clennon. I represent the Staff of the
17 Illinois Commerce Commission.

18 A. Good morning.

19 Q. Could you turn to your Exhibit R-5,
20 please?

21 A. Yes. I have that.

22 Q. Thank you. This is an exhibit that

1 shows the various orders back from 1985 and current
2 rates as well as the percentage increase of the
3 following order, the following Commission order.

4 Is that correct?

5 A. Yes, up until the current docket.

6 Q. Very good. So for the fourth block
7 where you have 11.24 percent and the third block is
8 19.17 percent, 8.04 percent, 4.29 percent, that
9 represents the general increase that the Commission
10 approved for the Company for those rates. Is that
11 correct, sir?

12 A. That's correct, except the second block
13 was a minus 8.04 percent.

14 Q. You're correct. And generally this
15 represents the increase for the usage plus other
16 costs based on the revenue requirement, just in
17 general -- just in the most general terms.

18 A. Yes.

19 Q. And the same thing with the four other
20 -- well, the three other orders. Is that true?

21 A. That's correct.

22 Q. Very good.

1 And as a general matter, does the Company
2 ask -- I'm sorry. As a general matter, is Staff's
3 position concerning the revenue requirement greater
4 than the Company's position?

5 A. No, it is not.

6 Q. So, in fact, the percentage increase, if
7 the Company had prevailed in these dockets, would
8 have been greater, as a general matter.

9 A. The overall percent of increase would
10 have been greater. As to the impact on individual
11 rate blocks, I can't really say.

12 Q. That's very true.

13 But certainly if an increase -- certainly
14 if there was not an equal percentage in the
15 increase over all the rate blocks, if there was one
16 rate block that, for lack of a better word,
17 suffered from a higher percentage increase, that
18 would be because a lower percentage was assigned to
19 a different rate block. Is that accurate?

20 A. That could be one reason. Other factors
21 would be the amount of cost assigned to the fire
22 protection classification or to meter charges.

1 Q. Speaking of the costs assigned, would
2 you not agree that the cost causer should pay the
3 cost for that service?

4 A. That's generally the basis for a
5 cost-of-service study is to identify that.

6 Q. Very good.

7 And then the last column you have Staff
8 Docket 00-0340, this docket, and you have these
9 percentages, 9.06, 6.14, 15.59, 8.84. That is not
10 Staff's current position. Is that correct?

11 A. That's correct. Those percentages are
12 based on Staff's direct filing.

13 Q. And, in fact, in response to pressure to
14 even out the effects, or let me use a term of art
15 here, the rate shock necessarily, Staff has
16 attempted to even out the percentage of increase on
17 these rate blocks. Is that true?

18 A. The Staff to their credit has made a
19 definite attempt to try to even out the increases
20 to the blocks, so there's still not uniform -- the
21 third and fourth blocks still see a higher percent
22 of increase than the first and fourth blocks, but

1 compared to where Staff started out, there has been
2 definite movement to try to even that out to some
3 extent.

4 Q. And the percentage of increase that
5 Staff currently proposes, the difference in the
6 percentage of increase between each block is less
7 than 2 percent currently.

8 A. That's correct.

9 MR. CLENNON: Very good. Staff has nothing
10 further. Thank you, Your Honor.

11 EXAMINATION

12 BY EXAMINER WALLACE:

13 Q. Mr. Stafford, what's your own knowledge
14 of whether the City of St. Louis has water for
15 sale?

16 A. My own knowledge is that the City of
17 St. Louis has a tremendous amount of excess
18 capacity that they're not currently using, and they
19 have that available to customers not only
20 technically on the Missouri side of the river but
21 also on the Illinois side of the river, if those
22 potential customers are interested in obtaining

1 that source.

2 Q. Well, more specifically, how are you
3 aware that the City of St. Louis has water for sale
4 other than they have water for sale?

5 A. They have entered into pipeline
6 arrangements on the Missouri side of the river with
7 a number of neighboring communities and customers,
8 and so they're currently selling quite a bit of
9 water outside of the City of St. Louis proper.

10 We have had -- not me personally, but
11 other representatives of Illinois-American have
12 talked with the city manager of the City of
13 St. Louis, and he has indicated that they have
14 excess capacity. I expect there has been -- I'm
15 sure there have been articles written about the
16 fact that they have lost customers over the years
17 within the City of St. Louis that were users and
18 large users, and, as a result, it is general common
19 knowledge because of newspaper articles --

20 Q. No, not general common knowledge, your
21 knowledge that you have, not general common
22 knowledge. Have you exhausted what you know?

1 A. My first indication was when we
2 negotiated with the customers that were prepared to
3 buy water from the City of St. Louis, there was an
4 agreement drafted up between one of those
5 customers, the two former sale-for-resale customers
6 and the City of St. Louis, that indicated their
7 willingness and ability to meet the demand of those
8 customers over a 30-year term, so that was direct,
9 firsthand knowledge because of in the sense that I
10 reviewed that agreement and was aware that they had
11 the ability to meet that demand.

12 They had also indicated their ability to
13 meet the demand of the additional three industrial
14 customers that we serve through those same
15 negotiations, so I was aware that they had the
16 ability to do that.

17 EXAMINER WALLACE: All right. Thank you.

18 Redirect?

19 MR. KUCERA: May I have a five-minute break to
20 see if we have any redirect questions?

21 EXAMINER WALLACE: Yes. That would be fine.

22 Let's take five minutes.

1 (Whereupon a short recess was
2 taken.)

3 EXAMINER WALLACE: Okay. Let's go back on the
4 record.

5 Do we have any redirect?

6 MR. KUCERA: I have a couple of questions.

7 EXAMINER WALLACE: All right.

8 REDIRECT EXAMINATION

9 BY MR. KUCERA:

10 Q. Mr. Stafford, along the lines of the
11 questions from the Examiner at the end of your
12 cross-examination, do you also recall an instance
13 where a representative of the City of St. Louis
14 testified in 1998 in one of the Company's
15 certificate cases?

16 A. Yes. I was also a witness testifying in
17 that case, and I do recall that evidence being
18 presented.

19 Q. And more specifically, what did the
20 representative from the City of St. Louis generally
21 say in that certificate proceeding?

22 A. My recollection is the witness testified

1 that they had excess capacity available to provide
2 water service to customers and that they were
3 willing and available to do that to customers we
4 currently served.

5 Q. You were asked a question whether
6 generally the cost of service should be allocated
7 to the cost causers. Do you recall that question
8 and your answer?

9 A. I recall the question, yes.

10 Q. Do you feel that there may be exceptions
11 to that general proposition from time to time?

12 A. Certainly. We've commented to that
13 effect in our testimony that we believe this case
14 is where an exception should be made.

15 Q. And that exception is the one that you
16 refer to in supporting your across-the-board
17 proposed rate increase to mitigate impacts on large
18 users?

19 A. Yes.

20 MR. KUCERA: I have no further questions.

21 EXAMINER WALLACE: Any recross? Thank you,
22 Mr. Stafford. You may step down.

1 (Witness excused.)

2 EXAMINER WALLACE: Are there any objections to
3 the exhibits for this witness?

4 MR. CLENNON: Staff has none.

5 MR. FITZHENRY: No.

6 EXAMINER WALLACE: All right. I'm going to
7 give it a try here with our brand-new e-Docket
8 system.

9 What exhibit did he clarify or strike
10 from?

11 MR. KUCERA: He struck from, first of all, his
12 direct testimony, Exhibit 3.0.

13 EXAMINER WALLACE: Okay. And you have a new
14 copy of that?

15 MR. KUCERA: No. The ones we submitted we
16 just crossed out the relevant portions.

17 EXAMINER WALLACE: I mean you have submitted

18 --

19 MR. KUCERA: To the reporter, yes.

20 EXAMINER WALLACE: Okay.

21 MR. KUCERA: And we also struck Exhibit 3.3,
22 which was referenced in that portion of the direct

1 testimony.

2 EXAMINER WALLACE: Okay. Exhibits 3.1, 3.2,
3 5.0, 9.0, 11, and 12 electronically filed on April
4 17, 2000, are admitted.

5 (Whereupon Company Exhibits
6 3.1, 3.2, 5.0, 9.0, 11, and 12
7 were received into evidence.)

8 Ronald D. Stafford Exhibit R-1, Ronald D.
9 Stafford Exhibit R-2, Ronald D. Stafford Exhibit
10 R-3, Ronald D. Stafford Exhibit R-4, Ronald D.
11 Stafford Exhibit R-5, Ronald D. Stafford Exhibit
12 R-6 electronically filed September 15, 2000, are
13 admitted.

14 (Whereupon Ronald D. Stafford
15 Exhibits R-1 through R-6 were
16 received into evidence.)

17 Ronald D. Stafford SR-1 filed October 19,
18 2000, electronically is admitted.

19 (Whereupon Ronald D. Stafford
20 Exhibit SR-1 was received into
21 evidence.)

22 Exhibit 3.0, the Direct Testimony of

1 Ronald Stafford, as revised at the hearing , is
2 admitted, and a new version will be sent to the
3 Clerk's Office. Thank you.

4 (Whereupon Company Exhibit 3.0
5 was marked for identification
6 by the Court Reporter and
7 received into evidence.)

8 And then Exhibit 3.3 electronically filed
9 on April the 17th has been withdrawn and was not
10 moved. Is that correct?

11 MR. KUCERA: That's correct.

12 EXAMINER WALLACE: Is everybody okay with
13 that? All right.

14 Next witness anyone?

15 MR. KUCERA: I'll call another witness.

16 EXAMINER WALLACE: Okay.

17 MR. KUCERA: I'll call Mark Johnson.

18 EXAMINER WALLACE: Mr. Johnson, would you take
19 the stand, please.

20

21

22

1 MARK JOHNSON
2 called as a witness on behalf of Illinois -American
3 Water Company, having been first duly sworn, was
4 examined and testified as follows:

5 DIRECT EXAMINATION

6 BY MR. KUCERA:

7 Q. Please state your full name.

8 THE WITNESS:

9 A. Mark Johnson.

10 Q. And are you appearing today on behalf of
11 Illinois-American Water Company?

12 A. Yes.

13 Q. And did you cause to be prepared in a
14 written question and answer format your direct
15 testimony?

16 A. Yes, I did.

17 Q. And is that direct testimony the
18 document that has been marked as Exhibit 2?

19 A. Yes.

20 Q. And if I were to ask you the same
21 questions this morning as appear in your direct
22 testimony, would your answers be the same?

1 A. Yes.

2 MR. KUCERA: Mr. Examiner, subject to
3 cross-examination, I offer into evidence the direct
4 testimony of Mr. Johnson, which has been marked as
5 Exhibit 2.

6 EXAMINER WALLACE: Mr. Ader.

7 MR. ADER: Yes.

8 CROSS EXAMINATION

9 BY MR. ADER:

10 Q. Mr. Johnson, you testified in your
11 Exhibit 2.0 at some length, pages 6 through 11,
12 regarding the Alton treatment facility. Now that
13 facility is complete and operating?

14 A. No, it is scheduled to be in operation
15 at the end of this year.

16 Q. When it does go into operation, is it
17 anticipated that that facility will serve the City
18 of O'Fallon, the Village of Caseyville, and/or the
19 City of Fairview Heights?

20 A. No, it will not.

21 Q. At pages 13 through 15 of your testimony
22 you reflect major capital projects completed in

1 1999. Are there any in that list that either now
2 that they're completed or when they are complete do
3 or will serve the City of O'Fallon, the Village of
4 Caseyville, or the City of Fairview Heights?

5 A. Any project that is listed associated
6 with the Interurban District would have some
7 benefit because it is an integrated system to those
8 communities.

9 Q. So you're saying all of them would have
10 or that some might have? Because it's my
11 understanding, I'm not sure whether it was in your
12 testimony or it may have been the President's
13 testimony, that not all of the areas -- not all of
14 the pipes are interconnected and that they tend to
15 serve discreet areas.

16 A. The Interurban system is integrated. It
17 is connected. There may be some construction that
18 occurs in Granite City that may not directly affect
19 the City of O'Fallon, but theoretically,
20 technically, water could get from Granite City to
21 those districts in an emergency situation, so we
22 consider any work that's done in our Interurban

1 District as having the potential of serving the
2 entire area.

3 Q. All right. Understanding that, and
4 excluding the potential, the emergency, or the
5 theoretical, and looking at the major capital
6 projects completed in 1999, are there any there
7 that would have a direct benefit for the City of
8 O'Fallon, the Village of Caseyville, or the City of
9 Fairview Heights?

10 A. Not a direct benefit.

11 Q. I ask you the same question in regard to
12 those that are listed as the major 2000 capital
13 projects shown between pages 15 and 17 of your
14 written testimony.

15 A. Again, any project that is associated
16 with the Interurban District could have a benefit
17 to those communities, in this case more
18 specifically the chlorine gas scrubbers at our
19 Granite City station and also the project the
20 Brooklyn pump station.

21 Q. Are you saying that those fit into the
22 potential or the emergency or are those ones that

1 you're designating as having a direct benefit on
2 O'Fallon, Caseyville, and/or Fairview Heights?

3 A. Potential.

4 Q. Do any of them have a direct benefit?

5 A. No.

6 Q. Okay. Looking at the major 2001 capital
7 projects at pages 17 through 18 of your written
8 testimony, will any of those have a direct benefit
9 on O'Fallon, Caseyville, or Fairview Heights?

10 A. No, but I would like to add, over the
11 next six years, including the year 2000, our
12 nonrecurring capital program for the entire Company
13 is about \$64 million, and \$30 million of that work
14 is work that will be done in standard tariff
15 pricing areas, including the Interurban District,
16 and in the Interurban District in that same time
17 frame there will probably be about \$12 million
18 worth of work done that will benefit O'Fallon and
19 the other communities you mentioned.

20 Q. Well, again, is that what you call the
21 potential or the emergency or is that -- or now are
22 we talking about direct benefit?

1 A. That would be direct benefit.

2 Q. To O'Fallon?

3 A. Uh-huh.

4 Q. To Caseyville?

5 A. Yes.

6 Q. And to Fairview Heights.

7 A. (Witness nods head up and down.)

8 Q. All three.

9 A. Right.

10 Q. And that is part of your present rate

11 proposal that's covered what you're projecting

12 because you're saying that it would occur in 2000,

13 but it's not among the projects listed for 2000.

14 A. No, this is our long-term, five-year,

15 six-year plan.

16 Q. So it would be outside of the 2000 /2001

17 projects that are listed.

18 A. Yes.

19 Q. Do you know about how far beyond that?

20 Do you have any idea?

21 A. To the year 2005, through the year 2005.

22 Q. But you don't know -- you're not able to

1 commit now as to whether that would be 2003, 2004,
2 or 2005, just sometime within that range.

3 A. It's spread throughout that time frame.

4 Q. You're a member of the American Water
5 Works Association?

6 A. Yes.

7 Q. Are you familiar with the Association's
8 Manual M1, Principles of Water Rates, Fees, and
9 Charges?

10 A. I'm aware of it, but I'm not proficient
11 in the document.

12 Q. Do you use it at all?

13 A. I do not.

14 Q. Do other people in your Company to your
15 knowledge use it?

16 A. I'm not aware that other people use it.

17 Q. You don't know.

18 A. I do not know.

19 MR. ADER: All right. That's all I have.

20 EXAMINER WALLACE: Redirect?

21 MR. KUCERA: No.

22 EXAMINER WALLACE: Thank you, Mr. Johnson.

1 You may step down.

2 (Witness excused.)

3 EXAMINER WALLACE: Is there any objection to
4 Exhibit 2.0? All right. Exhibit 2.0
5 electronically filed on April the 17th of 2000 is
6 admitted into the record.

7 (Whereupon Company Exhibit 2.0
8 was received into evidence.)

9 EXAMINER WALLACE: Next witness.

10 MR. KUCERA: I'll call Mr. Ruckman.

11 EXAMINER WALLACE: All right.

12 FREDERICK L. RUCKMAN
13 called as a witness on behalf of Illinois -American
14 Water Company, having been first duly sworn, was
15 examined and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. KUCERA:

18 Q. Please state your full name.

19 THE WITNESS:

20 A. Frederick L. Ruckman.

21 Q. Mr. Ruckman, are you appearing on behalf
22 of Illinois -American Water Company in this

1 proceeding?

2 A. Yes, I am.

3 Q. And did you cause to be prepared in a
4 written question and answer format your direct
5 testimony?

6 A. Yes, I did.

7 Q. And is that direct testimony contained
8 in the document marked Exhibit 6.0?

9 A. Yes, it is.

10 Q. And if I were to ask you the same
11 questions this morning as appear in Exhibit 6.0,
12 would your answers be the same?

13 A. Yes, they would.

14 Q. And your prepared testimony makes
15 reference to four other exhibits, 6.1, 6.2, 6.3,
16 and 13. Is that correct?

17 A. Yes, it is.

18 Q. Were those exhibits either prepared by
19 or under your direction and supervision?

20 A. Yes, they were.

21 MR. KUCERA: Thank you.

22 I have no more questions of this witness,

1 and subject to cross-examination, as to which I
2 believe there is none, I offer into evidence
3 Exhibits 6, 6.1, 6.2, 6.3, and 13.

4 EXAMINER WALLACE: My chart shows no cross.
5 All right.

6 Is there any objection to those exhibits?

7 MR. FITZHENRY: No objection.

8 EXAMINER WALLACE: All right. Hearing none,
9 you may step down, Mr. Ruckman. Thank you.

10 (Witness excused.)

11 Exhibits 6.0, 6.1, 6.2, 6.3, and 13 filed
12 electronically on April the 17th of 2000 are
13 admitted as filed.

14 (Whereupon Company Exhibits
15 6.0, 6.1, 6.2, 6.3, and 13
16 were received into evidence.)

17 EXAMINER WALLACE: Thank you.

18 Next witness.

19 MR. KUCERA: We have a witness that's
20 scheduled for tomorrow, but there's no cross
21 indicated for him. I'm wondering if I could put
22 him on now.

1 EXAMINER WALLACE: Which one is that?

2 MR. KUCERA: Mr. Rumer.

3 EXAMINER WALLACE: Is there any objection to
4 putting Mr. Rumer on? You may proceed.

5 MR. KUCERA: Very good. Mr. Rumer, would you
6 take the stand.

7 MICHAEL A. RUMER

8 called as a witness on behalf of Illinois-American
9 Water Company, having been first duly sworn, was
10 examined and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. KUCERA:

13 Q. Please state your full name.

14 THE WITNESS:

15 A. Michael A. Rumer.

16 Q. Are you appearing in this proceeding on
17 behalf of Illinois-American Water Company?

18 A. Yes, I am.

19 Q. And did you cause to be prepared in a
20 written question and answer format your direct
21 testimony?

22 A. Yes.

1 Q. And is that contained in the document
2 marked Exhibit 4?

3 A. Yes, it is.

4 Q. If I were to ask you the same questions
5 this morning as appear in Exhibit 4, would your
6 answers be the same?

7 A. Yes, they would.

8 Q. And does your prepared testimony make
9 reference to Exhibits 10 and 14?

10 A. Yes, it does.

11 Q. And were those exhibits either prepared
12 by you or under your direction and supervision?

13 A. Yes.

14 Q. In connection with responding to the
15 Commission's deficiency letter early in this
16 proceeding, did you cause to be prepared a revised
17 Schedule E-6 which is part of Exhibit 14?

18 A. Yes, I did.

19 MR. KUCERA: Mr. Examiner, subject to
20 cross-examination, I would offer into evidence
21 Exhibits 4, 10, and 14, with the reference that
22 Schedule E-6 contained in Exhibit 14 has been

1 revised, and the reporter has been furnished a copy
2 of that revised schedule as part of Exhibit 14.

3 EXAMINER WALLACE: Okay. Was the entire
4 Exhibit 14 provided or just the revised schedule?

5 MR. KUCERA: We actually provided the entire
6 Exhibit 14.

7 EXAMINER WALLACE: All right.

8 MR. KUCERA: It might be simpler to just treat
9 that as a written presentation today.

10 EXAMINER WALLACE: Any objection? Once again,
11 I don't see any cross. Exhibit 4.0 and Exhibit 10,
12 electronically filed on April the 17th of 2000, are
13 admitted into the record as filed.

14 (Whereupon Company Exhibits
15 4.0 and 10 were received into
16 evidence.)

17 EXAMINER WALLACE: Exhibit 14 Revised is
18 admitted, and a new version will be sent to the
19 Clerk's Office.

20 (Whereupon Company Exhibit 14
21 Revised was marked for
22 identification by the Court

1 Reporter and received into
2 evidence.)

3 EXAMINER WALLACE: Thank you, Mr. Rumer.

4 (Witness excused.)

5 MR. KUCERA: That concludes the Company
6 witnesses scheduled for today.

7 EXAMINER WALLACE: Mr. Clennon.

8 MR. CLENNON: We call William Johnson.

9 (Whereupon ICC Staff Exhibit
10 9.0 Revised was marked for
11 identification by the Court
12 Reporter.)

13 EXAMINER WALLACE: You may proceed.

14 MR. CLENNON: Thank you.

15 WILLIAM R. JOHNSON
16 called as a witness on behalf of the Staff of the
17 Illinois Commerce Commission, having been first
18 duly sworn, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. CLENNON:

21 Q. Please state your name for the record.

22 THE WITNESS:

1 A. William R. Johnson.

2 Q. Who is your employer and what is your
3 business address?

4 A. Illinois Commerce Commission, 527 East
5 Capitol, Springfield, Illinois 62701.

6 Q. Mr. Johnson, did you prepare written
7 exhibits and schedules for submittal in this
8 proceeding?

9 A. Yes, I did.

10 Q. Do you have before you a document that
11 has been identified as Staff Exhibit 4.0, which was
12 filed on e-Docket on August 24th of the year 2000,
13 and it's entitled the Direct Testimony of William
14 R. Johnson? It consist of 29 typewritten pages
15 with Schedules 4.1 PT that is 17 pages, 4.2 PT that
16 is one page, 4.1 STR that is 17 pages, 4.2 STR that
17 is one page. In addition to that, on September 1st
18 of the year 2000 you filed Staff Exhibit 4.0,
19 Schedule 4.1 S&P Revised, which is 17 pages, also
20 4.2 S&P Revised, which is one page. Is that
21 correct, sir?

22 A. Yes, it is.

1 Q. Do you have any additions or corrections
2 to make to those exhibits and schedules?

3 A. No, I do not.

4 Q. You have before you a document which has
5 been marked for identification purposes as ICC
6 Staff Exhibit 9.0 Revised. Is that true?

7 A. That's correct.

8 Q. And this has been entitled Revised
9 Rebuttal Testimony of William R. Johnson. Is that
10 correct?

11 A. Correct.

12 Q. This version of the testimony has not
13 been filed on e-Docket. Is that correct?

14 A. That's correct.

15 Q. And can you go over the changes between
16 this version and the version that was filed
17 previously on e-Docket?

18 A. Yes. There was a change in the revenue
19 requirement by Staff witness Goldberger, and
20 because of those changes, all of my schedules
21 changed. The rates changed. Additionally, I made
22 a change to a private fire connection charge that

1 was incorrect according to the tariff of the
2 Company. Those were the only two changes.

3 MR. CLENNON: And, Your Honor, it's my
4 understanding that Staff overnighted the revised
5 rebuttal testimony as well as the schedules to all
6 the parties, and those schedules consist of 9.1 S&P
7 Revised which is 7 pages, 9.2 S&P Revised which is
8 one page, 9.1 PT Revised which is 17 pages, 9.2 PT
9 Revised which is one page long, 9.1 STR Revised
10 which is 17 pages, 9.2 STR which is one page.

11 Q. Do you have any corrections to make to
12 this document, sir?

13 A. No, I do not.

14 Q. Is the information contained in the
15 schedules and exhibits true and correct to the best
16 of your ability?

17 A. Yes.

18 Q. Subject to the modifications that we
19 mentioned earlier, if you were to be asked the same
20 questions as those set forth in these exhibits,
21 would your answers be the same today as they were
22 when they were filed?

1 A. Yes, they would.

2 MR. CLENNON: Mr. Examiner, I move for
3 admission into evidence of the Staff exhibits, and
4 Mr. Johnson is available for cross. I'd be happy
5 to go through them again, if you'd like.

6 EXAMINER WALLACE: Let's go off the record a
7 minute.

8 (Whereupon at this point in
9 the proceedings an
10 off-the-record discussion
11 transpired.)

12 EXAMINER WALLACE: All right. Back on the
13 record.

14 Does anyone have any cross of
15 Mr. Johnson?

16 MR. KUCERA: I have a few questions.

17 EXAMINER WALLACE: Mr. Kucera.

18 CROSS EXAMINATION

19 BY MR. KUCERA:

20 Q. Good morning, Mr. Johnson.

21 A. Good morning.

22 Q. Mr. Johnson, are you aware of any

1 situation in a rate case where the Staff has
2 recommended a cost-of-service study to design rates
3 and the Commission has approved instead an
4 across-the-board increase?

5 A. Not to my knowledge.

6 Q. Are you familiar with the Commission's
7 Order for Commonwealth Edison in Docket 90-0169
8 where the Commission approved an across-the-board
9 rate increase rather than a cost-of-service
10 designed rate increase in order to avoid rate
11 shock?

12 A. No, I am not.

13 EXAMINER WALLACE: You'll have to speak up,
14 Mr. Johnson.

15 A. No, I am not.

16 Q. I quote from the Commission's Order.
17 "The Commission concludes that rates should be
18 increased across the board by an equal percentage
19 for each customer class. Our principal rationale
20 is the initial rate shock which may be felt by the
21 residential class due to the size of Edison's rate
22 increase." You're not familiar with that language?

1 A. No, I am not.

2 Q. Thank you.

3 Would it be fair to say that in viewing
4 your revised rate design for the Southern portion
5 of the STP group that essentially you have modified
6 the cost-of-service study so as to adjust the rate
7 blocks to almost the same percentage increase?

8 A. The rate blocks themselves are fairly
9 close, yes.

10 Q. And would it be fair to say that you did
11 this in order to mitigate rate impacts on the large
12 volume customers?

13 A. I guess it's more for the large
14 customers, but it's more overall for everyone.

15 Q. All right.

16 A. But yes, mostly for the large customers.

17 Q. And that action by you would help
18 facilitate retention of these larger customers?

19 A. I don't know that my decision was based
20 on retention. There has been no evidence to show
21 that -- put in this case to show that anyone is
22 going to be leaving the system.

1 Q. By reducing the impact on larger
2 customers, would you assume that that would
3 facilitate the possibility of retention of
4 customers who might be deciding to leave the
5 system?

6 A. It could do that, yes.

7 MR. KUCERA: Thank you.

8 We have no further questions.

9 EXAMINER WALLACE: Mr. Ader?

10 CROSS EXAMINATION

11 BY MR. ADER:

12 Q. Now it's possible that as a result of
13 your change in your rate block increases that there
14 is no longer really quite the same inconsistency,
15 but I would like you to compare what you said in
16 your rebuttal, page 5, lines I think it's 74 to 76,
17 that under my proposed rates, large water users --

18 MR. CLENNON: Counselor, could you give the
19 witness time to get there?

20 Q. Yeah.

21 A. I'm there.

22 Q. Okay. I thought you were. Under my

1 proposed rates, large water users would see an
2 increase in their rates. However, the large water
3 users would still not be charged their full cost of
4 service, and then on page 6 you say that the
5 shortfall in revenues was spread to all classes --

6 A. Could you give me a place where you're
7 talking about here?

8 Q. That one I didn't mark for myself, so it
9 will take me a second. Sorry. It's in the direct
10 testimony.

11 A. Page 6?

12 Q. Yeah.

13 A. I believe it's page 16.

14 Q. 16, yes, around lines I think it's 335
15 to around 338, about how this will be spread to all
16 classes.

17 A. Yes.

18 Q. And you've said, however, I propose that
19 the large water class pay full COS. Then later on
20 --

21 MR. CLENNON: Could I have a reference for
22 that, the however?

1 MR. ADER: It's the same place.

2 MR. CLENNON: Are you referring to page 16,
3 line 350?

4 MR. ADER: Yes.

5 MR. CLENNON: Okay. It is not in the same
6 place. There's two paragraphs. It's an entirely
7 different question.

8 EXAMINER WALLACE: I think we can --

9 MR. CLENNON: Okay.

10 MR. ADER: If you'll just give me a moment,
11 Your Honor.

12 (Pause in the proceedings.)

13 Q. All right. Actually all I need is the
14 first part where we had around 335. The point I'm
15 making is that the rebuttal on page 5 you said that
16 the large water users would still not be charged
17 their full cost of service, and in your direct
18 testimony at page 6, the lower lines around 350, as
19 was pointed out, you say that the large water
20 service class would not reflect the full cost of
21 service, and I'm just wondering which of those is
22 correct or whether you've changed your position.

1 A. I did not change my position. There's
2 an actual large user water service rate, a customer
3 on that rate, and when I'm talking in my rebuttal
4 it's about large customers, not that customer.

5 Q. Okay. So it's in your direct testimony
6 that you're talking about one particular customer?

7 A. Yes.

8 Q. And it's in your rebuttal testimony that
9 you're talking about a class of large water users.

10 A. Yes, that doesn't include that one.

11 Q. It does not include that one.

12 A. Yes.

13 Q. Can you name the large water user that
14 we're referring to?

15 A. No, I cannot.

16 Q. Is there a reason you cannot?

17 A. It's not listed in the tariff, so.

18 Q. Now you do recognize to some degree that
19 competition requires an alteration from what you
20 might otherwise consider to be the theoretically
21 perfect rate. Is that correct?

22 A. Are you speaking of when I -- in

1 designing my rates?

2 Q. Well, your rates recognize that there
3 are certain customers that are getting a lower rate
4 because they are what we have been calling
5 competitive customers. Is that correct?

6 A. That is correct.

7 Q. And their shortfall, as you refer to it,
8 has to be spread to other customers of the Company.

9 A. That's correct.

10 Q. Now under a theoretically perfect,
11 theoretically perfect system, according to what I
12 understand your testimony thus far to be, there
13 really should be everyone in a particular class
14 having the same characteristics paying the same
15 rate. Is that correct?

16 A. Paying their full cost of service.

17 Q. So that the recognition that there are
18 certain customers that are -- these competitive
19 customers are going to pay less, there's a
20 recognition that the theoretical doesn't always
21 hold true under real circumstances. Is that
22 correct?

1 A. That's true.

2 Q. Has the Commission itself at any time
3 had a hand in -- the Staff I should say had a hand
4 in determining who the Company should recognize as
5 a competitive customer and who it should not?

6 A. In cases where there are competitive
7 rates, the Commission Staff looks at those either
8 through a proceeding or through a tariff filing to
9 see if these customers -- if there is a reason to
10 give them a special rate.

11 Q. But that's in the nature of a review
12 where ultimately the Commission will be asked to
13 pass on that, as it is on a rate. Is that correct?

14 A. That's correct.

15 Q. But the Commission Staff has never
16 actually actively in any way worked with the
17 Company or in its own proposals recognized any
18 particular customer group to be deserving of a
19 lower rate to keep them within the system or for
20 some other reason.

21 A. Ultimately it goes to the Commission.

22 Q. I realize. What I'm saying, that's

1 usually though on an application made by the
2 Company. Is that right?

3 A. Correct.

4 Q. But in your proposal now or in the past,
5 you have not recognized any particular type of
6 special rate or approach as part of your proposal
7 that would be applicable to keep certain large
8 users within the system particularly.

9 A. As I stated before --

10 MR. CLENNON: Your Honor, I have an objection.
11 What counsel has asked is if he has done that in
12 this case or in the past. That is a compound
13 question.

14 Q. First let me ask you in the past. Has
15 the Commission as part of any counter or
16 independent proposal on a rate case by this water
17 company proposed a special classification or
18 category to account for those customers who might,
19 if they were not given a special consideration,
20 might leave the system?

21 A. You just said the Commission? I would
22 say --

1 Q. No, leave the system I said.

2 A. Right, and in your initial question --

3 Q. Staff.

4 A. Okay. So you've changed it to Staff.

5 Q. In their application to the Commission.

6 This is not their first rate application. They

7 were here what, two or three years ago? And I'm

8 saying in the past has the Staff ever made that

9 type of recommendation within its own independent

10 proposals?

11 A. Not that I'm aware of.

12 Q. Okay. And I would ask the same question

13 in regard to this particular rate application. The

14 Staff has not made that type of suggestion either

15 in this case. Is that correct?

16 A. That's correct.

17 Q. And I take it from your answer to your

18 -- earlier answer to the Company's

19 cross-examination that you do not presently share

20 their concern that large users may leave the system

21 because of the higher rates?

22 MR. CLENNON: Objection. That's a

1 mischaracterization of the witness's answer?

2 MR. ADER: The witness can say whether that's
3 true or not.

4 EXAMINER WALLACE: Overruled.

5 THE WITNESS: Repeat the question, please.

6 EXAMINER WALLACE: Read back the question,
7 please.

8 (Whereupon the requested
9 portion of the record was read
10 back by the Court Reporter.)

11 A. I think it's always a concern when a
12 large customer is going to leave the system.
13 However, in this proceeding I have not read
14 testimony or seen anything that would show me that
15 that is occurring.

16 Q. In the process of doing your part on
17 behalf of Staff in this rate application of the
18 Company, did you read Mr. Stafford's testimony
19 where he makes specific reference to the City of
20 O'Fallon and the Village of Caseyville as being a
21 concern; that the City of O'Fallon had actually
22 taken some action toward investigating leaving the

1 system?

2 A. Yes, I read that.

3 Q. And you do not take that seriously at
4 this point.

5 A. There has been no evidence besides
6 Mr. Stafford's testimony that something is going to
7 occur, that somebody is going to leave. If there
8 was evidence otherwise, then we would examine that.
9 However, in my rates themselves I have recognized
10 the potential for customers leaving in the way that
11 I've set the blocks.

12 Q. Now you say that you've seen no
13 evidence. Let me follow up on that a bit. When
14 you did your cost-of-service study and so forth,
15 you did active investigation. Is that not correct?

16 A. And by active you mean?

17 Q. Well, you went to the Company or sought
18 through document requests either by -- let's say
19 either going to their premises, which might have
20 been an easier thing, and seeking their cooperation
21 or through formal document requests you sought a
22 considerable amount of information, did you not,

1 from the water company?

2 A. That's correct.

3 Q. And you took an active role in first
4 getting that material and then in reviewing that
5 material in order to reach whatever conclusions you
6 reached.

7 A. That's correct.

8 Q. Did you do the same type of active
9 investigation to determine whether O'Fallon,
10 Caseyville, or for that matter any other large
11 water user has, in fact, a -- poses a credible
12 concern that they will leave the Company's system?

13 A. No, I did not.

14 Q. Now in your testimony, I believe it was
15 page 10, line 201.

16 A. Of my direct or rebuttal?

17 Q. I believe it was your direct testimony.
18 You said there I have employed -- you're there,
19 right?

20 A. Yes.

21 Q. Okay. You stated I have employed the
22 same class demand factors that were approved by the

1 Commission in the following dockets, and then the
2 numbers of each docket begin with 97, 97, and 95,
3 so those were all past dockets. Correct?

4 A. Correct.

5 Q. In the years that the docket begins, 97,
6 95. Is that correct?

7 A. Correct.

8 Q. And I believe that there have been
9 developments in the water company, have there not,
10 in terms of acquiring either new territory or new
11 customers, whatever, since '95 and '97? Is that
12 correct?

13 A. That may be. I'm not sure about that.

14 Q. And you also I think testified on page
15 -- I believe it's page 14 of your direct testimony,
16 lines 291 to 292, that a cost-of-service study
17 should be performed with the most recent data. Is
18 that true?

19 A. That's correct.

20 Q. So that ideally, instead of using the
21 same class demand factors that were used in the
22 prior dockets, it would have perhaps have been more

1 accurate and perhaps more appropriate to have used
2 the class demand factors that are existing today.
3 Is that correct?

4 A. That's very possible.

5 Q. Now in your Appendix A at pages 27 and
6 at 29 -- well, strike that for one moment. I want
7 to go back to the previous question.

8 Because you used the class demand factors
9 from '97 and '95 as opposed to demand factors of
10 now 2000, it is potential that there is some
11 inaccuracy in your result. Is that correct?

12 A. A cost-of-service study is not a
13 complete accurate of what is out there. It's a way
14 of taking the information that you have available
15 and coming to a conclusion.

16 Q. But you -- I'm sorry. Complete your
17 answer. I didn't mean to interrupt.

18 A. That's all.

19 Q. But you yourself did testify that it
20 should be performed with the most recent
21 information or data, and that's because as the data
22 changes, which it could over time, so an accurate

1 result would also change with the change in the
2 data.

3 A. That's true.

4 Q. All right. Going back to the question I
5 started to ask you, at your Appendix A, pages 27
6 and 29, you specifically mention that you followed
7 the procedures of the AWWA manual, that's the
8 American Water Works Association manual, and I
9 think you specifically said that you relied on the
10 fourth edition, but you did, in fact, use that
11 because you find that particular document on the
12 question of -- I'm looking for it's title -- on
13 rates. I believe it's called -- as you find that
14 authoritative and reliable and a good guide on the
15 principles of water rates, fees, and charges. Is
16 that correct?

17 A. It's a wide-known manual that many in
18 the water industry use.

19 Q. And rely upon.

20 A. Sure.

21 Q. And you did that in -- according to your
22 appendix. Is that right?

1 A. That's true.

2 Q. And there is now a fifth edition that
3 came out in 2000?

4 A. I believe so.

5 Q. And that would be every bit as
6 authoritative or perhaps, because it's more recent,
7 more authoritative than the fourth edition?

8 A. I don't know that I can answer that. I
9 haven't really had a chance to look through it
10 completely.

11 Q. So you're not familiar with the fifth
12 edition, but you know that to be true of the fourth
13 edition; that it's reliable and widely used and
14 accepted.

15 A. Yes.

16 MR. ADER: I think that's all I have.

17 EXAMINER WALLACE: Mr. Fitzhenry.

18 MR. FITZHENRY: Yes.

19 CROSS EXAMINATION

20 BY MR. FITZHENRY:

21 Q. I guess good afternoon, Mr. Johnson.

22 As a general matter in setting rates,

1 it's intended that rates be designed so that it
2 recovers the cost incurred by the utility providing
3 the service. Correct?

4 A. The customer, yes, or class.

5 Q. And I think you mentioned earlier that
6 rates can also be designed and set so that they
7 recover the costs from those cost causers that
8 incur the costs to the utility. Right?

9 A. Correct.

10 Q. And there's other considerations such as
11 rate continuity and rate stability as well?

12 A. Yes.

13 Q. And, of course, rate impact, and I think
14 you referred to rate impact as being one of the
15 reasons why you made the adjustment in your
16 rebuttal testimony to adjust the fourth block in
17 the Southern Division, Peoria District, correct?

18 A. Yes.

19 Q. And you understand that the Company has
20 made the proposal it has in this case, the
21 across-the-board increase, as its way of attempting
22 to deal with the rate impact to the large

1 customers. Correct?

2 A. Yes.

3 Q. So would you agree that in that regard
4 you and the Company are alike in terms of trying to
5 come to some means by which to deal with the rate
6 impact to the fourth block to those customers in
7 the Southern Division, Peoria District?

8 A. Yes. It was the third block also, I
9 might mention.

10 Q. Thank you for that clarification. So
11 it's a question right now as a matter of degree,
12 whether you've gone far enough or the Company
13 hasn't come up as far as you are. Would that be a
14 fair characterization of where you two stand today?

15 A. I don't know that I'm trying to compare
16 my adjustments to theirs. I'm just trying to set
17 my rates to best serve each customer class, as you
18 state, one reason for rate impact issues.

19 Q. Okay.

20 EXAMINER WALLACE: One reason for what?

21 A. Rate impact issues.

22 Q. Now you mentioned earlier, and I think

1 your testimonies reflect, that you did, in fact,
2 review the testimonies of Company witness Stafford.
3 Correct?

4 A. Yes.

5 Q. And you also did review the testimonies
6 of IIWC witness Mr. Michael Gorman?

7 A. Yes.

8 Q. And Mr. Gorman also addresses the issue
9 of the competitive options to large customers.
10 Correct?

11 A. Yes.

12 Q. Okay. And I don't see anywhere in your
13 testimonies that you have taken issue with either
14 Mr. Stafford or Mr. Gorman as to their opinions
15 that these customers do have competitive options.
16 Do I read your testimonies correctly?

17 A. I have not said anything in my testimony
18 about that, no.

19 Q. Okay. Are you currently aware or are
20 you aware today that there are customers taking
21 service under the competitive rate?

22 A. Yes, there is a competitive rate, so

1 yes. There are customers under that rate.

2 Q. Thank you. And I think you mentioned
3 earlier that you believe there's at least one
4 customer taking service under the large user water
5 service rate?

6 A. Yes.

7 Q. And is it your understanding that these
8 particular rates or tariffs are intended to address
9 the competitive options that these customers may
10 have?

11 A. That may be part of it. I don't know
12 that that's all of it.

13 Q. Have you reviewed the actual tariff that
14 sets out the competitive rate that we have been
15 talking about?

16 A. The competitive rate, yes, yes.

17 Q. Okay.

18 A. Oh, I thought you were talking about the
19 large user rate.

20 Q. I'll break up the question. I
21 apologize.

22 A. Okay.

1 Q. First, do you understand that the
2 competitive rate is intended to deal with those
3 customers that specifically have competitive
4 alternatives?

5 A. Yes.

6 Q. Do you have that same understanding with
7 respect to the large user water service rate?

8 (Pause in the proceedings.)

9 A. I don't know that I agree that the large
10 user rate is there because the customer is going to
11 leave the system. I can agree that it's another
12 competitive rate for large users, but not because
13 they're going to leave the system.

14 Q. Would it be fair to say that it offers
15 an attractive price to what otherwise would be the
16 bundled rate that that customer might pay if it
17 wasn't on that particular rate or tariff?

18 A. I would agree with that.

19 Q. Do you know whether or not there are any
20 customers in what has been termed the Eastern or
21 Northern Divisions that are taking service under
22 the competitive rate?

1 A. I'm not sure.

2 Q. Is it your understanding that most if
3 not all the customers taking service under the
4 competitive rate are in the Southern Division?

5 A. I'm not exact -- I'm not sure of the
6 exact customers on there, so I couldn't answer
7 that.

8 Q. If you know, do you have an
9 understanding as to whether or not the competitive
10 rate, while it will serve to keep that customer on
11 the Company's system, is done so, in part, to
12 ensure that if it were to leave the system, that
13 other customers would pick up more of the fixed
14 costs? Is that one of the benefits I guess to the
15 other ratepayers by virtue of the competitive rate?

16 A. The other customers would surely pick up
17 those costs that that customer does not pay for
18 then.

19 Q. Now I think you'd agree with me that the
20 Alton water treatment plant is considered to be a
21 large investment?

22 A. What do we compare it to?

1 Q. Well, you in your rebuttal testimony on
2 page 5, line 77 through 78, actually use the words
3 large investment.

4 A. I would agree.

5 Q. You'd agree with your own testimony?

6 A. Yes.

7 (Laughter)

8 Q. Thank you.

9 But it will result in an increase in the
10 Company's rate base.

11 A. Yes.

12 Q. Okay. And sort of a hypothetical, if
13 you had a lot of large customers leaving that
14 system, it could be that more customers that remain
15 will end up picking up more of the fixed costs
16 associated with the Alton water treatment plant.
17 Correct?

18 A. That is true. In the alternative, if
19 large customers weren't there to begin with, then
20 they may not have needed such a large treatment
21 plant.

22 Q. But they're there today.

1 A. That's correct.

2 Q. Let's talk a little bit about your
3 cost-of-service studies. Now you prepared one for
4 the Southern Division, Peoria District, the Pontiac
5 District, and the Sterling District, correct?

6 A. Streator.

7 Q. Streator District. Thank you. And if I
8 recall correctly, there may be only one instance
9 where you actually had your cost-of-service study
10 at 100 percent for one of the major categories of
11 customers, and I think it's a residential customer
12 class in either the Pontiac or Sterling District.
13 Would that be right?

14 A. Pontiac or Streator.

15 Q. Pontiac or Streator.

16 A. I'll have to look here. And are you
17 referring to rebuttal testimony?

18 Q. Yes, I am.

19 A. That's correct.

20 Q. And seldom is the case that cost of
21 service is ever set exactly 100 percent, correct?

22 A. I don't know that I'd use the word

1 seldom. It depends case to case.

2 Q. Well, at least in this -- I'm sorry.

3 A. In this case we have, as we pointed out,
4 a competitive rate that we've allocated more cost
5 to these customers, so on the Southern/Peoria side,
6 by allocating those and by my changing my rates in
7 my blocks to adjust for large users, you see a
8 larger increase on the residential and commercial
9 side. So there's a bigger increase on them, so
10 they are not 100 percent.

11 Q. Right, and the Pontiac and Sterling or
12 Streator?

13 Q. Streator?

14 Q. In the Pontiac and Streator Districts
15 your cost of service for the industrial class is
16 well over 100 percent.

17 A. Correct.

18 Q. And I think you -- well, strike that.

19 You recognize that there's an opportunity
20 -- if we were to assume that the Commission does
21 approve the Company's across-the-board increase in
22 the Southern Division, Peoria District, that there

1 will be an opportunity in the next rate case to
2 move the industrial class closer to full cost of
3 service?

4 A. There will be an opportunity, but it
5 will be a greater amount. They will have to make
6 more movement towards that. By going across the
7 board now compared to what I've proposed, it will
8 be a much larger movement.

9 Q. You heard Mr. Stafford earlier today say
10 that the Company anticipates, although it's not a
11 fixed date, that there would be this chance to at
12 least revisit this issue in about three years?

13 A. Yes, I remember.

14 Q. Do you think that would be preferable
15 than to say five years down the road in terms of
16 looking at cost of service and trying to get
17 classes to full cost of service?

18 A. Obviously, the sooner it is the better,
19 if that was to occur.

20 Q. Let me ask you to look at your rebuttal
21 testimony, page 5, please, and there at lines 91
22 through 93, and, again, this addresses your revised

1 cost-of-service study for the Southern Division,
2 Peoria District, you indicate that your fourth
3 block rate is nearly half the amount of the first
4 block rate. Correct?

5 A. Correct.

6 Q. Now if we go to look at I think it's
7 going to be Exhibit 9.2, page 2. Hold on.
8 Actually, please turn to Schedule 9.1, S&P Revised,
9 page 1 of 17. Do you have that before you?

10 A. Yes.

11 Q. Okay. Let's look at the column titled
12 Adjustments on the far left-hand side.

13 A. Adjustments.

14 Q. Do you see that?

15 A. No, I don't.

16 Q. You don't see on the far left-hand side
17 a column -- well, in the middle of it starts Usage
18 Charges. Then you go down about 10, 12 lines, and
19 it says Adjustments?

20 A. Oh, yes, yes. I'm sorry.

21 Q. Okay. And if you move to the right,
22 under the column titled Staff Rates, you have the

1 first block 2.1870, correct?

2 A. Yes.

3 Q. And the fourth block 1.1410.

4 A. Correct.

5 Q. And is that the basis for your

6 representation that the second block is double the

7 fourth block?

8 A. No, that the first block is double the

9 fourth block.

10 Q. The first block is double the fourth

11 block.

12 A. Correct, correct.

13 Q. Now let's move to the left under the

14 category or the column titled Present Rates.

15 A. Yes.

16 Q. And there for the first block it's shown

17 to be 1.9870 and the fourth block .8700?

18 A. No.

19 Q. I'm sorry.

20 A. Say that again.

21 Q. 1.0290.

22 A. Yes.

1 Q. Do you see that?

2 A. Yes.

3 Q. Okay. Would you agree that -- and this
4 is a ballpark -- that the first block under current
5 rates is approximately twice the size as the fourth
6 block under current rates?

7 A. It's approximately double.

8 Q. Oh, okay. I understand.

9 When you made your adjustments as
10 reflected in your rebuttal testimony and your
11 rebuttal exhibits, again, focusing mostly on the
12 Southern Division, Peoria District, did that cause
13 an increase in the first and second blocks? And I
14 guess if we went back and looked at Schedule 9.1,
15 we could see that, correct?

16 A. Correct. Well, actually you'll see an
17 increase in all the blocks because there's a
18 different revenue requirement between direct and
19 rebuttal, but, yes, there is an increase in those
20 first two blocks.

21 Q. Okay. And customers taking service in
22 the third and fourth blocks also take service in

1 the first and second blocks. Correct?

2 A. It's a small percentage of what they
3 take, yes.

4 Q. But they have to get through the first
5 and second blocks before they get to the third and
6 then fourth block.

7 A. That's correct.

8 Q. And so to the extent that there is an
9 increase in the first and second block, they absorb
10 some portion of that increase, correct?

11 A. A smaller portion than customers who
12 only fall in that block.

13 Q. Now I'd like you to turn to your Staff
14 Exhibit 4.0, Schedule 4.2, page 1 of 1.

15 A. Is it the S&P?

16 Q. Yes; I'm sorry. And it's titled
17 Illinois-American Water Company, Docket No.
18 00-0340, Typical Residential Bill Comparison 5/8th
19 Inch Meter. Correct?

20 A. Yes.

21 Q. Now let me first ask you why did you
22 find a need to develop this exhibit that depicted

1 the typical residential bill comparison?

2 EXAMINER WALLACE: What exhibit are you on?

3 MR. FITZHENRY: This is going to be Schedule
4 4.2, Southern Division in Peoria District, page 1
5 of 1. It's attached to his direct testimony.

6 A. I have found over many of the cases that
7 I've worked on that the Commission typically asks
8 for a residential bill comparison.

9 Q. Now you have provided this bill
10 comparison for a residential customer in the City
11 of Peoria and one in the City of Alton. Correct?

12 A. Yes.

13 Q. Just for clarification, if we look down
14 at the City of Alton bill comparison, line 7, there
15 you denote that's a typical monthly residential
16 usage. Correct?

17 A. Correct.

18 Q. And moving to the right under the column
19 titled Company Proposed Monthly Bill, there's a
20 value of \$32.32. Do you see that?

21 A. Correct.

22 Q. Is that particular value driven by the

1 Company's proposal to impose the Source of Supply
2 Charge in part?

3 A. Yes.

4 Q. Now your \$27.89 charge under the Staff
5 Proposed Monthly Bill does not include the Alton
6 Source of Supply Charge. Is that right?

7 A. Correct. It's 27.91.

8 Q. Now let's move to the top table, the one
9 dealing with the City of Peoria, if we could for a
10 second, and, again, just so I'm sure that I
11 understand what this purports to represent, after
12 your review of the Company's direct case and your
13 presentation of your direct testimony and exhibits,
14 you reflect on line 7 the Company Proposed Monthly
15 Bill of \$29.68 as compared to the Staff Proposed
16 Monthly Bill of \$28.72.

17 A. 77 cents, isn't it?

18 Q. Did you say \$28.77?

19 A. Yes. Do you have the Schedule 4.2 S&P
20 Revised?

21 Q. No, but if that's what the number is,
22 that's fine. Thank you. And so that represents a

1 difference between the Company's proposed monthly
2 bill and Staff proposed monthly bill of about
3 \$1.34?

4 A. Correct.

5 Q. Now I'd like you to look at the same
6 exhibit that's attached to your rebuttal testimony,
7 and that would be Staff Exhibit 9.0, Schedule 9.2
8 S&P Revised, and just focusing on the typical
9 residential bill for a resident in the City of
10 Peoria, under the column titled Dollar Increase it
11 shows a difference between where the Company is --

12 EXAMINER WALLACE: Hold up just a minute.

13 (Pause in the proceedings.)

14 EXAMINER WALLACE: All right.

15 Q. Okay. There on line 7, the difference
16 between the Company's proposed monthly bill versus
17 the Staff proposed monthly bill is \$1.55.

18 A. Well, actually the \$1.55 represents the
19 increase from the current.

20 Q. Current what?

21 A. Current monthly bill that the customer
22 now has.

1 Q. Ah. Thank you.

2 A. Not proposed, and if I didn't clarify
3 that on the previous schedule we looked at, that's
4 what it represents also.

5 Q. All right. Thank you then for that.

6 Well, let me ask it this way. Is one way
7 to look at the difference between the Company's
8 across-the-board increase as it would relate to a
9 residential customer in the Peoria District with
10 where you are in your rebuttal case the difference
11 between \$29.68 and \$28.98, or 70 cents?

12 A. Correct, for a customer using 700 cubic
13 feet.

14 Q. So if the Commission were to approve the
15 Company's across-the-board increase, that would be
16 the net effect to a residential customer, as
17 reflected by the usage requirements under line 7?

18 A. That's correct.

19 MR. FITZHENRY: Thank you, sir. That's all
20 the questions I have.

21 EXAMINER WALLACE: Mr. Balsters.

22 MR. BALSTERS: Yes, Mr. Johnson, just a few

1 questions here this afternoon.

2 CROSS EXAMINATION

3 BY MR. BALSTERS:

4 Q. Regarding rate design, throughout your
5 testimony both in direct and the rebuttal you state
6 that you are supportive of STP for the Southern and
7 Peoria Divisions. In your direct testimony, page
8 21, line 451, you state that one of the main
9 benefits of STP is the ability to spread large
10 capital costs over a large customer base. Do you
11 believe that the current rate case with the capital
12 expense of the Alton treatment plant is a prime
13 example of being able to spread costs out over a
14 large customer base?

15 A. Yes.

16 Q. In your direct testimony, page 16, lines
17 37, 38, 39, you state that you spread the recovery
18 of revenue to customer classes so as not to have
19 too large an impact on any one class. You further
20 state that you made adjustments so as not to have
21 the impact on the resale customers at 16 percent
22 since that would have been extremely large. In

1 your opinion, what is a reasonable rate increase
2 that should not be exceeded for any one customer
3 class in a single rate case?

4 A. I don't know that I can have -- can say
5 there's a set amount. It's just something that I
6 look at and determine how it compares to other
7 classes, what their increases are, what the system
8 increase is, what the cost of service is. It's a
9 few things, so there is no set amount.

10 Q. In your revised rebuttal testimony, page
11 10, you state that if the Commission were to change
12 its position on STP, it may take more than one rate
13 case to move back to district specific rates to
14 avoid disruption in rates. In your opinion, why is
15 it important to have stability of rates for the
16 various customer classes?

17 A. I guess I feel that's part of my job to
18 look over all customers and classes, whatever case
19 I work on, for the State of Illinois so that they
20 do not have huge increases or swings in their
21 rates.

22 Q. The Company's proposed rates for the

1 resale customer class in this current proceeding
2 generate an increase of 34.8 percent for Fosterburg
3 and Jersey County Rural Water. Do you find that
4 magnitude of a rate increase to be unreasonable for
5 a single customer class?

6 A. In doing my testimony I didn't look at
7 that amount as whether it is too large or
8 unreasonable. I looked at it more as that's the
9 rate you came out with by deviating from STP. So
10 my decision was based not on the amount that was
11 there but more that either there is standard tariff
12 pricing or there's not.

13 Q. In your testimony, your opinion, that's
14 why the Alton surcharge was not appropriate because
15 it was a deviation from STP.

16 A. In my opinion, yes.

17 Q. In your Staff Exhibit 9.0, Schedule 9.2
18 S&P Revised which we just recently looked at, the
19 second table which shows the typical residential
20 usage for the City of Alton, the lower table.

21 A. Yes.

22 Q. You've set out some numbers indicating

1 transpired.)

2 EXAMINER WALLACE: Okay. Let's take a
3 five-minute break.

4 (Whereupon a short recess was
5 taken.)

6 EXAMINER WALLACE: Let's go ahead and go back
7 on the record.

8 Mr. Clennon, do you have any redirect of
9 Mr. Johnson?

10 MR. CLENNON: We do have some redirect. If I
11 may proceed.

12 EXAMINER WALLACE: You may.

13 MR. CLENNON: Thank you.

14 CROSS EXAMINATION

15 BY MR. CLENNON:

16 Q. Mr. Johnson, you were asked a couple of
17 questions concerning the demand factor for the
18 companies which were formerly I think Niwater, as
19 we refer to them. Is that correct?

20 A. Yes.

21 Q. And plus one Illinois-American division.
22 Is that right?

1 A. Yes.

2 Q. Just to clear you, you were asked a
3 question on whether there has been any substantial
4 changes, for example purchases of a different
5 utility or something along that line. Is that
6 correct?

7 A. Yes.

8 Q. And your answer was not to your
9 knowledge. Would you like to correct that?

10 A. However, they have purchased the
11 Northern Divisions.

12 Q. Okay.

13 A. And, in fact, I've done cost-of-service
14 studies for the Pontiac and Streator.

15 Q. Very good.

16 In order to avoid using the factors that
17 were set in those dockets that you used, what kind
18 of preparation would the Company or yourself have
19 to undertake in order to get those?

20 A. The demand factors?

21 Q. Yes.

22 A. There would have to be an extensive

1 study done of the area of the customers to come up
2 with those demands factors. It could be very
3 expensive.

4 Q. You were also asked a number of
5 questions by Mr. Fitzhenry concerning the rate
6 comparison. I guess it was your Schedule 9.2.

7 A. Correct.

8 Q. Is that correct? Does that schedule
9 accurately reflect the changes that are currently
10 as of this date being proposed?

11 A. What they reflect, you have to keep in
12 mind is that when I have a Company proposed monthly
13 bill here, it is based on their revenue
14 requirement, and under my proposal it's under my
15 revenue requirement, so there are some differences
16 that aren't shown here that can't be factored in
17 because of the differences in revenue requirements.

18 Q. You were also asked the question
19 concerning whether you did a comparison of the
20 sale-for-resale customers.

21 A. Yes.

22 Q. Is that true? Do you recall that

1 question?

2 A. I did not do as a class, as a whole. I
3 do have some information I received from the
4 Company where I did do some specific
5 sales-for-resale customer comparisons.

6 MR. CLENNON: Very good. Staff has nothing
7 further.

8 EXAMINER WALLACE: Mr. Kucera?

9 MR. KUCERA: Nothing.

10 EXAMINER WALLACE: Mr. Ader?

11 MR. ADER: No.

12 EXAMINER WALLACE: Mr. Fitzhenry?

13 MR. FITZHENRY: Yes.

14 RECROSS EXAMINATION

15 BY MR. FITZHENRY:

16 Q. Just to follow up again on Schedule 9.2,
17 as of today, right now, who is seeking the greater
18 revenue requirements, the Company or Staff, in
19 their case?

20 A. The Company.

21 Q. Okay. So assuming, if you looked at the
22 Company's monthly bill proposal, but instead it was

1 Staff's revenue requirement that was accepted by
2 the Commission, are you with me so far?

3 A. Yes.

4 Q. The difference between what that number
5 would be, whatever it is, would be closer to the
6 Staff proposed monthly bill than what's now
7 reflected in the exhibit.

8 A. That's possible.

9 Q. Well, why is it not? Why is it not
10 correct?

11 A. I guess it would depend on -- well, I
12 guess if it's across-the-board, you're correct.

13 MR. FITZHENRY: Thank you.

14 EXAMINER WALLACE: Mr. Balsters.

15 MR. BALSTERS: Yes.

16 RECROSS EXAMINATION

17 BY MR. BALSTERS:

18 Q. Mr. Johnson, you indicated you have
19 worked with some data for the resale customer
20 class?

21 A. Yes.

22 Q. Can that data be provided?

1 revision that has not been filed electronically. A
2 paper version will be furnished to the Clerk's
3 Office, and so an electronic version does not need
4 to be filed again or risk incurring the wrath of
5 Ms. Caton.

6 (Whereupon ICC Staff Exhibit
7 9.0 Revised was received into
8 evidence.)

9 And on the other exhibits, we're going to
10 have -- we don't need to do it today, but I'm going
11 to have to match up the title on the e-Docket with
12 the various either schedules or exhibits and admit
13 them that way. For example, on August the 24th we
14 have line 14 is entitled William R. Johnson. Line
15 15 is entitled 8-24 Filing Johnson Pontiac COSS.
16 We probably need to match those up somehow.

17 MR. CLENNON: I think we can take care of that
18 through a filing.

19 EXAMINER WALLACE: So apparently there's no
20 objection to what's been labeled as Staff Exhibit
21 4.0, the Direct Testimony of William R. Johnson,
22 and certain schedules and revised schedules, but we

1 will need to try to match those up.

2 MR. KUCERA: No objection.

3 EXAMINER WALLACE: And those aren't admitted
4 at this point.

5 MR. CLENNON: We'll take care of it, Your
6 Honor.

7 EXAMINER WALLACE: Okay.

8 Then is there one other witness we could
9 squeeze in this morning?

10 MR. KUCERA: Yes. If we could add one more
11 witness for whom I do not believe there's any
12 cross-examination, I think with a little shuffling,
13 we could eliminate tomorrow as a hearing date.

14 EXAMINER WALLACE: All right. And is there
15 any objection to that from any of the parties?

16 MR. FITZHENRY: No.

17 EXAMINER WALLACE: Well, there's very few
18 people who really enjoy being in Springfield, other
19 than those of us that live here. I was just
20 thinking of all the out-of-towners.

21 Mr. Robinson?

22 MR. KUCERA: Yes. Mr. Robinson, would you

1 take the witness stand.

2 EXAMINER WALLACE: And I don't think you were
3 sworn. Would you raise your right hand.

4 (Whereupon the witness was
5 sworn by Examiner Wallace.)

6 EXAMINER WALLACE: Thank you.

7 EARL M. ROBINSON
8 called as a witness on behalf of Illinois-American
9 Water Company, having been first duly sworn, was
10 examined and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. KUCERA:

13 Q. Please state your full name.

14 THE WITNESS:

15 A. My name is Earl M. Robinson.

16 Q. And, Mr. Robinson, are you appearing on
17 behalf of Illinois-American Water Company?

18 A. Yes, I am.

19 Q. And did you cause to be prepared in a
20 written question and answer format your direct
21 testimony?

22 A. Yes, I did.

1 the proceedings an
2 off-the-record discussion
3 transpired.)

4 EXAMINER WALLACE: Let's go back on.

5 All right. Let me back up. Strike what
6 I said.

7 Exhibit 8.0 and 8.1 are admitted, subject
8 to admitting them to correspond with our e-Docket.
9 Sorry. That's till we get this worked out.

10 (Whereupon Company Exhibits
11 8.0 and 8.1 were received into
12 evidence.)

13 EXAMINER WALLACE: The chart indicates no
14 cross. Is that correct? All right. Thank you,
15 Mr. Robinson.

16 (Witness excused.)

17 MR. KUCERA: Our witness, Terry Gloriod, who
18 is scheduled for tomorrow, is available for Monday,
19 and I would suggest that we slot him in for Monday,
20 and, Mr. Clennon, I don't know if Karen Goldberger
21 and Theresa Ebrey are available for Monday, but I
22 assume they might be.

1 MR. CLENNON: Yes, we'll make them available.

2 EXAMINER WALLACE: Okay.

3 MR. CLENNON: Does anyone have any cross for
4 -- outside of Mr. Kucera for either of those two
5 witnesses?

6 MR. FITZHENRY: No.

7 MR. CLENNON: Would it be possible to put
8 Theresa's exhibits in via affidavit? And if we can
9 answer Mr. Kucera's question and he has no
10 objection, Ms. Goldberger's testimony as well?

11 MR. KUCERA: That's correct, from my
12 standpoint.

13 EXAMINER WALLACE: Well, you do have some
14 cross of Karen Goldberger.

15 MR. KUCERA: I just have one question, and
16 I've asked Mr. Clennon to see if he could get me an
17 answer off the record, and if it's satisfactory, I
18 would accept his answer on her behalf at the
19 hearing.

20 EXAMINER WALLACE: All right. Okay.

21 We will transfer witness Gloriod to
22 Monday and Ms. Goldberger and Ms. Ebrey either to

1 Monday or by way of affidavit, and with that in
2 mind, our hearing tomorrow is cancelled, and we
3 will resume on Monday at 10:00 A.M.

4 MR. KUCERA: Agreed.

5 EXAMINER WALLACE: Thank you very much.

6 (Whereupon the case was
7 continued to October 30, 2000,
8 at 10:00 A.M. in Springfield,
9 Illinois.)

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1 STATE OF ILLINOIS)
)SS
2 COUNTY OF SANGAMON)

3 CASE NO.: 00-0340

4 TITLE: ILLINOIS COMMERCE COMMISSION
 On Its Own Motion
5 -vs-
 ILLINOIS-AMERICAN WATER COMPANY
6
7
8
9

10 CERTIFICATE OF REPORTER

11 I, Cheryl A. Davis, do hereby certify that I
12 am a court reporter contracted by Sullivan
13 Reporting Company of Chicago, Illinois; that I
14 reported in shorthand the evidence taken and
15 proceedings had on the hearing on the
16 above-entitled case on the 26th day of October,
17 2000; that the foregoing 137 pages are a true and
18 correct transcript of my shorthand notes so taken
19 as aforesaid and contain all of the proceedings
20 directed by the Commission or other persons
21 authorized by it to conduct the said hearing to be
22 so stenographically reported.

 Dated at Springfield, Illinois, on this 7th
day of November, A.D., 2000.

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